BALANCING THE BUDGET

HEARING

BEFORE THE

SUBCOMMITTEE ON CONSTITUTIONAL AMENDMENTS

OF THE

COMMITTEE ON THE JUDICIARY UNITED STATES SENATE

NINETY-FOURTH CONGRESS

FIRST SESSION

ON

S.J. Res. 55

PROPOSING AN AMENDMENT RELATIVE TO THE BALANCING OF THE BUDGET

S.J. Res. 93

PROVIDING THAT, EXCEPT IN TIME OF WAR OR ECONOMIC EMERGENCY DECLARED BY THE CONGRESS, EXPENDITURES OF THE GOVERNMENT MAY NOT EXCEED THE REVENUES OF THE GOVERNMENT DURING ANY FISCAL YEAR

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94th Congress, 2d Session

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BALANCING THE BUDGET

TUESDAY, SEPTEMBER 23, 1975

U.S. SENATE,
SUBCOMMITTEE ON CONSTITUTIONAL AMENDMENTS
OF THE COMMITTEE ON THE JUDICIARY,
Washington, D.C.

The subcommittee met, pursuant to notice, at 10:05 a.m., in room 2228, Dirksen Senate Office Building, Senator Hiram L. Fong presiding.

Present: Senators Fong, Thurmond, and Scott of Virginia.

Also present: David M. Rubenstein, chief counsel; Marilyn R. Berning, assistant chief clerk.

"SEC. 4. The provisions of sections 1, 2, and 3 of this article may be suspended in the case of a grave national emergency declared by Congress (including a state of war formally declared by Congress) by a concurrent resolution, agreed to by a rollcall vote of three-fourths of all the Members of each House of Congress, with each such resolution providing the period of time (not exceeding one year) during which those provisions are to be suspended.

"SEC. 5. This article shall take effect on the first day of the calendar year next following the ratification of this article.

"SEC. 6. The Congress shall have power to enforce this article by appropriate legislation.".

OPENING STATEMENT BY U.S. SENATOR HIRAM L. FONG

The Subcommittee is today hearing witnesses in favor of S.J. Res. 55 and S.J. Res. 93, two proposed Amendments to the Constitution either of which, if enacted, would balance the Federal budget under normal circumstances.

In light of the present economic conditions of our country, the question of fiscal responsibility on the part of the Government of the United States is a matter of great concern.

It is incontrovertible that in these times the huge budget of the Government of the United States has a direct and vital impact on our economy and on the future course of our Nation.

Balancing the Federal budget became a widely discussed political issue only in the twentieth century.

Prior to 1900, the Government had little trouble with budget deficits. Rapid economic expansion throughout the nineteenth century produced an ever-growing stream of revenues primarily from customs duties. If receipts were not quite up to expenditures in one year, they were likely to exceed expenditures the next year, or very soon.

Prior to the Civil War, customs duties routinely made up about 90 per cent of Federal income each year. Customs duties were politically popular, especially tariffs which protected American business and industry from foreign competition. Hence, plenty of funds were readily available for spending and higher taxes had widespread support.

The infrequent deficits came during periods of economic decline or war, almost exclusively. The reasons for spending in excess of revenues were usually quite clear and there was promise that they would cease as the economy recovered or as a war ended.

Largely as a result of this financial abundance, there was little attention given to overall budget conditions. No comprehensive budget was considered either by the President or by Congress. Expenditures were never weighed against revenues. Chronic surpluses reduced Federal borrowing to a rarely practiced art. In this context, it is surprising that "balancing the budget" was not much of an issue.

It was not until this century that efforts were made to match expenditures to revenue. In 1907, the Secretary of the Treasury supplied for the first time revenue estimates in his annual report. The Sundry Civil Appropriation Act of 1909 (Public Law 60–328) instructed the Secretary of the Treasury and the President to examine departmental spending estimates and suggest measures to reduce expenditures or raise revenues if the proposed spending exceeded probable receipts. This was the first legislative approach to a balanced budget. However, there is no evidence that this provision was ever acted upon by the Executive or the Legislature.

Not until the Budget and Accounting Act was passed in 1921 were expenditures and revenues incorporated into an official budget. The Budget and Accounting Act also defined the roles of the executive and legislative branches in the budget process. The President was to take responsibility for formulating the annual budget and submitting it to Congress early each year. Congress was then to act on the recommendations of the President.

During the 1920's, the Federal budget ran a surplus each year.

The first legislation proposed to balance the budget appears to have been H.R. 11895 submitted on March 18, 1936, by Representative W. D. McFarlane. It instructed the President to proclaim changes in tax rates sufficient to cover any proposed deficit in his annual budget. The rate changes would have taken effect automatically. This bill would have required the President to take actions aiming for a balanced or surplus budget.

Another 1936 resolution would have required a balanced budget under certain circumstances. H.J. Res. 579, submitted May 4, 1936 by Representative Harold Knutson, proposed a Constitutional Amendment imposing a per capita limit on the public debt during peacetime.

World War II put an end to discussion on the subject. In the late 1940's and early 1950's, the subject of a balanced budget was again revived as an alternative to the President's regular budget proposals.

In the 84th, 85th, and 86th Congresses, Constitutional Amendments were proposed by Senators Harry Byrd and Styles Bridges to require that the President submit a balanced budget, and that Congress could not adjourn without enacting a balanced budget. These provisions could have been suspended in a time of war or national emergency by a three-quarters vote in each House. Identical bills were introduced in the House in the 86th Congress. All were referred to the respective Judiciary Committees, but no action was taken on any of the measures.

During the 1960's further measures requiring a balanced budget were introduced, some as proposed Constitutional Amendments and others as regular bills. Most of these measures were limited to a single year and treated outlays only.

With the reawakening in Congress of its role as a co-equal branch of the Government and its determination to take its proper role and to show responsiveness to our present economic condition, last year we set up Budget Committees in both the House and Senate. This self-policing by Congress in an attempt to keep its appropriations in line with the Nation's revenue is indeed a large step forward toward fiscal responsibility on the part of the Members of Congress.

—The Budget Committees can challenge budget deficits.

—The Budget Committees can propose budget cuts and spending priorities.

Both the House and Senate Committees are now operational. It is too soon to evaluate fully their effectiveness.

Several proposals to balance the budget in the form of bills and Constitutional Amendments have been introduced in both the House and Senate during the 94th Congress.

These hearings are on S.J. Res. 55 and S.J. Res. 93.

S.J. Res. 55 was introduced on March 12, 1975, by Senator Curtis and cosponsored by Senators Hruska, Fannin, Garn, Goldwater, Laxalt, McClure, Scott of Virginia, and Thurmond. This is a pay as you go amendment.

S.J. Res. 93 was introduced on June 10, 1975, by Senator Talmadge and cosponsored by Senators Helms, Nunn, and Thurmond. This is a different approach to the same goal of a balanced budget.

I look forward to hearing the testimony in support of these proposals.

A copy of S.J. Res. 55 and S.J. Res. 93 will be incorporated in the hearing record at this point.

[S.J. Res. 55, 94th Cong., 1st sess.]

JOINT RESOLUTION Proposing an amendment to the Constitution of the United States relative to the balancing of the budget

Resolved by the Senate and House of Representatives of the United States of America in Congress assembled (two-thirds of each House concurring therein), That the following article is hereby proposed as an amendment to the Constitution of the United States, which shall be valid to all intents and purposes as part of the Constitution when ratified by the legislatures of three-fourths of the several States within seven years after its submission to the States for ratification:

"ARTICLE—

"SECTION 1. On or before the fifteenth day after the beginning of each regular session of the Congress, the President shall transmit to the Congress a budget which shall set forth separately—

"(1) his estimate of the receipts of the Government, other than trust funds, during the ensuing fiscal year under the laws then existing;

"(2) his recommendations with respect to outlays to be made from funds other than trust funds during such ensuing fiscal year; and

"(3) if such recommendations exceed such estimate, a surtax rate which the President determines to be necessary to be applied with respect to the income tax of taxpayers to those portions of taxable years of taxpayers occurring during such fiscal year, so that such receipts will equal such outlays.

Such surtax shall be effective and so applied to such fiscal year except as otherwise provided in section 2 of this article.

"SEC. 2. During the first quarter of each fiscal year, and during the third quarter of each fiscal year, the Speaker of the House of Representatives shall—

"(1) estimate the receipts of the Government, other than trust funds, during such fiscal year;

"(2) estimate outlays to be made from funds other than trust funds during such fiscal year; and

"(3) (A) if such estimate of outlays exceeds such estimate of receipts, determine a surtax rate which the Speaker considers necessary to be applied, with respect to the income tax of taxpayers, to those portions of taxable years of taxpayers remaining in such fiscal year, so that such receipts will equal such outlays; or

"(B) if such estimate of outlays equals such estimate of receipts, determine that no surtax rate is necessary to be applied.

Any such determination shall be effective, and so applied, with respect to the remainder of such fiscal year commencing on the first day of the first month commencing at least thirty days after such determination by the Speaker. The surtax rate determined by the President under section 1 of this article shall not thereafter be applied commencing with such effective date.

"SEC. 3. During the last month of each fiscal year, the President shall review whether the receipts of the Government, other than trust funds, for such year will be less than the outlays other than trust funds for that fiscal year. If he finds that such receipts are going to be less than such outlays, he shall determine a surtax rate which he considers necessary to be applied with respect to the income tax of taxpayers, so that taxes received by the Government from such surtax, when added to other receipts of the Government, will equal such outlays. Such surtax shall be effective, and so applied, as determined by the President only during the next succeeding fiscal year. The surtax effective and applied under this section is in addition to any other surtax that may be effective and applied under this article and may not be superseded or modified under section 1 or 2 of this article.

[S.J. Res. 93, 94th Cong., 1st sess.]

JOINT RESOLUTION Proposing an amendment to the Constitution to provide that, except in time or war or economic emergency declared by the Congress, expenditures of the Government may not exceed the revenues of the Government during any fiscal year

Resolved by the Senate and House of Representatives of the United States of America in Congress assembled (two-thirds of each House concurring therein), That the following article is proposed as an amendment to the Constitution of

the United States, which shall be valid to all intents and purposes as part of the Constitution when ratified by the legislatures of three-fourths of the several States:

"ARTICLE —

"SECTION 1. Except as provided in section 2 of this article, the aggregate amount of expenditures made by the Government during any fiscal year shall not exceed the net amount of revenue received by the Government during that fiscal year.

"SEC. 2. The provisions of section 1 shall not apply to any fiscal year—

"(1) if at any time during that fiscal year the United States is in a state of war declared by the Congress pursuant to section 8 of article I of this Constitution, or

"(2) if, with respect to that fiscal year, the Senate and the House of Representatives agree to a concurrent resolution stating, in substance, that a national economic emergency requires the suspension of the application of section 1 for that fiscal year.

In exercising its power under paragraph (2) of this section, the Senate and House of Representatives shall take into consideration the extent and rate of industrial activity, unemployment, and inflation, and such other factors as they deem appropriate.

"SEC. 3. The Congress shall have power to carry this article into effect by appropriate legislation.

"SEC. 4. This article shall take effect on the first day of the first fiscal year which begins after the date of its ratification.

"SEC. 5. This article shall be inoperative unless it is ratified as an amendment to the Constitution by the legislatures of three-fourths of the several States within seven years from the date of its submission to the States by the Congress.".

Senator FONG. The hearing of the Subcommittee on Constitutional Amendments on Senate Joint Resolution 55 and Senate Joint Resolution 93, will now please come to order.

The subcommittee is today hearing witnesses in favor of Senate Joint Resolution 55 and Senate Joint Resolution 93, two proposed amendments to the Constitution, either of which, if enacted, would balance the Federal budget under normal circumstances.

As we do not have much time this morning, since there will be a meeting of the full Judiciary Committee, I will have my prepared statement entered in the record at this point.

Senator FONG. Senator Curtis, are you going to be our first witness?

Senator CURTIS. Yes.

Senator FONG. Will our distinguished colleague please come forward?

STATEMENT OF HON. CARL T. CURTIS

Senator CURTIS. Mr. Chairman, I wish to thank you for holding these hearings. I want to extend my thanks also to Senator Bayh, the chairman of the subcommittee, for making the arrangements he has made.

In offering a copy of my resolution, I have made certain amendments. So, I would like to have Senate Joint Resolution 55 introduced in the record, including the proposed amendments, so that it would be the version we will be talking about.

Senator FONG. It will be so incorporated.

Senator CURTIS. And I would ask that a copy of Senate Joint Resolution 93, offered by Senator Talmadge, will at the appropriate time appear in the record, too.

Senator FONG. It is so ordered.

Senator CURTIS. May I say that I am very delighted that Senator Talmadge is here and is going to testify. We are both working for the same objective. That is a balanced budget; and we feel that it must be done by a constitutional amendment.

Realizing the tight schedule of the committee, I will proceed immediately to my prepared statement, which is not long.

I also wish to express my gratitude for the help of my colleague from Nebraska, Senator Hruska. As the ranking minority member of the Committee on the Judiciary, he has been most helpful to me. Senator Hruska supports the objective of this proposal and I am happy to report that he plans to testify when these hearings are resumed.

It is my belief that the question we shall be considering today and in subsequent hearing may be one of the most fundamental and important public questions to which this Congress can address itself.

It is abundantly clear that I am not alone in this opinion.

We shall be hearing from distinguished Members of Congress, as well as from perceptive and deeply concerned members of State legislatures all of whom share with us a deep concern for the rapidly deteriorating fiscal integrity of our Nation. We shall hear also from eminent economists from the north, from the south, from the west. All are profoundly concerned with the problem we shall be considering. At this very moment we are looking overseas and see a nation, the United Kingdom, whose desperate outlook is closely related to a government spending policy which is heading that great nation toward a disastrous outcome which even the most optimistic see as little short of hopeless. There is a certain point at which only heroic measures can stop a runaway deterioration.

Here at home we see our own Nation's most populous city hovering on the edge of bankruptcy. The same men whose policy of deficit spending brought their great city to its knees seem helpless to restore the economy of the city which they themselves have wrecked through unwise and reckless spending policies.

The rapidly accelerating pace of public spending across our Nation has now reached such a pitch, that some men, formerly advocates of almost unlimited spending, are now becoming alarmed. They—some of them—are ready at last to join us in seeking a solution to this problem before it is so far out of hand that an uncontrollable inflation will become unavoidable.

The helplessness of these politicians is evident to everyone, once the pace of the trend toward bankruptcy reaches a critical point. In New York City they now have to go begging to their State legislature. Yes; representatives of this great city come begging even to the Federal Government.

If bankrupt States should come to the Federal Government and then other bankrupt cities should join the company of beggars, how long could even the credit of the Federal Government endure such a lethal drain? Every responsible analyst in the country is alarmed by this trend.

It is not so many years ago that a hundred million marks would not buy a loaf of bread in Berlin. We must not, we will not tolerate a trend that could, in all realism, gain such momentum in our Nation.

The very responsible and distinguished witnesses who intend to testify today and later before this committee feel deeply, I know, the present danger of our situation.

I look forward with great interest to hearing their observations. especially as they relate to the proposal my distinguished colleagues and I have offered for a constitutional amendment which would require a balanced budget. The elements of the proposal are spelled out in the amended version of Senate Joint Resolution 55—and I shall not take time from other witnesses to specify the particulars at this time. Before these hearings are completed, I expect a full discussion of the proposals embodied in Senate Joint Resolution 55 as well as Senate Joint Resolution 93.

Let me say, Mr. Chairman. the pervading fear is that the Congress will not show itself capable of resisting the temptation to spend and spend beyond the resources of even our great Nation. The past history of fiscal recklessness is not very reassuring on this point.

We all hope that the new Senate Budget Committee established to give consideration to the budget will be able to do the job in the face of congressional pressure for excessive and reckless spending.

But, dare we hope for such a miraculous change in the Congress? Dare we leave the decision solely in the hands of a Congress which has brought us. over years of time, to the dangerous situation in which we find ourselves today? Will the Committee on the Budget, composed as it may be of men of highest principle and greatest character, find it possible to resist the pressure from a Congress which has become so accustomed to attempt the solution of every social evil known to man, by simply throwing money at the problem?

My colleagues and I who have sponsored Senate Joint Resolution 55 do not believe we dare leave the decision to Congress alone. without any outside restraints. after such a history of reckless spending. We are joined in the belief that nothing less than an amendment to the Constitution will serve. Nothing less, we believe, will be adequate restraint on a Congress which has become "hooked" on spending.

Before completing my remarks. I wish to spend a few moments to dispel certain myths that have been propagated and nourished by the advocates of unrestrained Federal spending.

It is commonplace, for example, for some of the press to refer to the question of balancing the Federal budget in a "worn-out slogan which is meaningless to most people". Certain elements of the press insist that people just don't care about this question. Other press representatives call it a "nonissue", "a trumped-up artificial issue of no real consequence."

Perhaps the best way to examine the validity of such statements is to get some facts on what people are really thinking.

Gallup conducted a poll not long ago that is very relevant to our consideration. Gallup interviewers asked a representative cross-section of the United States population the following questions:

"How important do you think it is to balance the Federal budget—very important, fairly important, or not so important?"

What these people told Gallup is important.

To begin with, Gallup found that over 90 percent of the entire population had thought about this question and did have a definite opinion on balancing the budget. Only a small fraction, only 7 percent, had no opinion. It is clear that the question of a balanced budget is on the minds of almost all of the people of this country.

Those who did have opinions—almost everyone, 83 percent, that is—favored balancing the budget. They thought it was important.

And these were not offhand opinions. Sixty percent of all people asked said the question of balancing the Federal budget was very important to them.

Those who tell us the public is indifferent to this question are either ignorant of the facts, or are deceiving us. They had better take another reading.

Another myth propagated by the advocates of big Federal spending is that only the rich really care about the problem. Gallup found that the opposite is true. It was in the highest income brackets that was found the most apathy. Only 52 percent of the relatively well-to-do persons believe balancing the budget is important.

On the other hand, people below $10,000 a year (down to $7,000) were much stronger in their beliefs on this issue. Seventy percent of the relatively low-income persons believed balancing the Federal budget to be very important in comparison with only 52 percent of the well-to-do.

Let's look a the very bottom economic group, those with incomes less than $3,000.

Gallup found that the poor were much more concerned than were people in the top income bracket.

No, it is not a rich man's issue. On the contrary, it is even more a poor man's issue. It is, in fact, every man's issue. And, despite the deluge of propaganda to the contrary, the poor know very well that they are the hardest hit by unbalanced budgets and consequent inflation. Let us not be misled on this issue any longer.

Gallup also analyzed his findings by occupation. He found that manual laborers were more concerned about balancing the budget than any other occupation; and farmers were close behind them in their intensity of feeling on the matter of a balanced budget.

And who were least concerned? The professional and business men were the least concerned.

Another myth propagated by the big spenders and their supporters in the press and on TV, is that a balanced budget is a partisan issue. It is often presented by the liberals as "a worn-out issue and dear only to the Republicans."

Let us look again at the Gallup findings.

According to the Gallup analysis, people who consider themsleves Democratic voters are more intensely concerned than are Republicans with the need for a balanced budget.

Gallup found that 63 percent of the Democrats believed the question of balancing the budget to be very important compared to 55 percent of the Republicans. In fact, more Independents also were concerned than were Republicans.

There are still other myths about balancing the budget.

Sometimes the question of a balanced budget is presented by propagandists disparagingly as an "old folks" issue. The young are supposed to be less interested in such matters.

Here again, the Gallup analysis displays the falsity of such a belief. Two groups of young people, one group aged 18 to 24 and another group 25 to 29, were found to be more keenly concerned with balancing the budget than were persons aged over 50 years.

The fact is clear. Young people are more clearly aware than some politicians may believe. Young people know they are deeply and im-

portantly affected by unbalanced Federal budgets, and the consequences that flow therefrom. It is clearly not an "old folks" issue only.

Spendthrift politicians who believe they are appealing to young people when they advocate reckless spending would be wise to study the actual public opinion of the young people on this issue.

Finally, let me say I do not lean entirely on Gallup for such information. Mr. Louis Harris found last year that 76 percent of the entire population believes that Federal spending is the major cause of inflation.

The people are ahead of the politicians on this question.

The poor really understand they are the hardest hit. They are not misled.

The farmers and the manual laborers know how much damage is done to them by the avalanche of Federal spending.

The young voters are not deceived by reckless promises.

And finally, it is not a partisan Republican issue as some have claimed. I repeat: A higher proportion of Democrats and of Independents are worried about an unbalanced budget than are Republicans.

And, again I repeat, 75 percent of the entire population believe Federal spending is the major cause of inflation.

It seemed to me appropriate to begin these hearings by dispelling some of the more obvious myths that have beclouded the issue.

It seems furthermore useful to establish beyond question the great importance to the American public of the matter we shall be considering.

The interest on our national debt is in the neighborhood of $35 billion this year. I might call to the attention of the committee that with $35 billion the U.S. Government could pay the entire present cost of the medicare program, the medicaid program, the highway program, the running of our agricultural program, and the program for the development of our water and power resources, including conservation and recreational purposes. We could pay all this out of what we are paying for interest.

I am indebted to many people for help on this resolution. I, myself, have introduced a resolution for a constitutional amendment on this subject for over 25 years. For over 25 years I have struggled with the job of trying to write a constitutional amendment that would put the Federal Government on a pay-as-you-go basis. The late Senator Harry Byrd, Sr., of Virginia, and the late Senator Styles Bridges from New Hampshire and I introduced a proposed constitutional amendment. At that time we thought we had a good idea for making our proposal self-enforcing. We offered a consitutional proposal that prohibited Congress from adjourning until the budget was balanced. Time has proven that it would have been ineffective, because Congress stays in session all year long. The enforcing provision would not have been effective.

It was the distinguished Senator from Delaware, Mr. John Williams, who made the suggestion that there ought to be an automatic surtax that would go into effect if the Congress did not take the necessary steps to balance the budget by other means. Senator Williams was talking about a statutory provision. This idea, however, has been incorporated in the constitutional provision.

And then follows, Mr. Chairman, a section-by-section analysis of the bill. I would include that in my statement but not take time to read it at this point.

I would like to offer for inclusion in the record an article by me, entitled, "The Budget Is Out of Control"; I would also like to offer copies of resolutions of several States, memorializing Congress on this subject. Some of them have asked for a constitutional convention, others have taken different forms; and I would also like to include a copy of the resolution passed by the Southern Governors' Conference just within the last few weeks.

Senator FONG. They will be included in the record as will a copy of the full text of your statement.

Senator CURTIS. I will see that my staff gets these and hands them to the reporter.

Senator FONG. Thank you very, very much, Senator Curtis, for this most thoughtful statement of yours relative to the state of our affairs.

I want to thank you for importuning the chairman of our committee to have this hearing. I think if it were not for your going after him and asking for this hearing, this hearing would not have taken place. So, I want to thank you for going after him so that this question be presented to the Nation.

Senator CURTIS. I thank you very much.

Sentor FONG. It will be very helpful to the Congress and to the people of the States, in helping them to understand what we are really talking about.

Senator CURTIS. Thank you very much. I heard a story some time ago about a lady who was asked, "How is your apartment heated," and she said, "By growling at the jantior"; that gave me an idea, it's a very good weapon in politics.

Senator SCOTT. Senator Curtis, I have a number of questions that I would like to ask you; if you would, perhaps you could respond to them at this time.

Senator CURTIS. I would be happy to do so.

Senator SCOTT. Senator, if you will, you proposed a constitutional amendment in your joint resolution, and I am glad to cosponsor this with you.

But, could you tell us, why is it necessary to have a constitutional amendment, why can't we have a balanced budget without going through the process of amending the Constitution?

Senator CURTIS. I believe that we must have a constitutional provision. I believe that, in arriving at the language, we need hearings of this kind, and that every proposal must be tested under fire and under questions and scrutiny.

I am thoroughly convinced that we must have a constitutional provision. The Congress needs that discipline. The Constitution is the supreme law of the land. A statute is a much lesser force than the Constitution. A statute can be changed without a direct amendment or repeal. As long as our efforts towards budget balancing are based upon statutes we must remember that it is the Congress that enacts a statute. So, any subsequent action by the Congress, statutory in nature, changes it. It's the last act that prevails.

In other words, I'm saying this, we could have a statutory requirement or limit on the budget, and it wouldn't mean very much. If Congress, in an appropriations bill, went over that amount, its action

would be valid, and it would prevail because they are both statutes, enacted by the same constitutional body, and the last act would prevail.

We have an illustration of that in the statute that requires Congress to adjourn on a certain day. For a number of years, starting early under the law, the question was raised, are they lawfully in session. Well, even if the statute says we shall adjourn, the Congress by subsequent acts can change the legislation, and the validity of the change has never been challenged. There is no real discipline in the statute.

I believe that a constitutional amendment is the only way to insure balanced budgets. I think that the people, the officeholders and others, have a reverence and regard for the Constitution, and that also is very helpful.

Senator SCOTT. Senator, some people do not like the idea of putting this in the Constitution, and providing for an executive budget in the Constitution, and a tax rate dictated by the executive branch.

Some of these same people say they do not believe it is wise to increase the power of the executive branch by placing in the Constitution the requirement that we have an executive budget, and a tax rate dictated by the executive branch.

Now, is that a part of your proposal?

Senator CURTIS. The language of my original proposal led to comments such as that. I do not agree with the comments. It becomes, however, rather academic because my revised version omits that part, and fixes the responsibiilty on the Congress.

But, I do want to take a moment to tell you why we designed that procedure in the original instance. Much of our spending is due to administration urging. The administration comes forward and has a program; it may be about petroleum, it may be about national health, it may be about anything.

I feel that if the President recommends expenditures in excess of what the tax receipts are going to be, that should be made known to the public in an emphatic way. In such a case my first proposal required him to calculate the excess and declare how much surtax it would take to put it in balance. That declaration would not have the force of law. The sole power over spending and in taxes would still continue in the Congress. It could lower his budget and a surtax would not be necessary. They could find some other revenues and the surtax would not be necessary, usually they go over.

I do not want to sidetrack the record here too much in defense of that provision because we made some changes in our original proposal, that, I believe, make it not only more workable, but clarify it, and make it simpler to understand.

Senator SCOTT. Senator, in the event that the committee recommends, Congress enacts, and the States ratify this proposed amendment to the Constitution, could you just explain briefly for the record how this would work?

Senator CURTIS. Yes. The Congress would be ordered or mandated by this amendment to establish a balanced budget. And that carries the same force as many of these other proposals. It is the command of the Constitution for a balanced budget.

My amendment has a self-enforcing provision which is sort of a backstop; the responsibility is clearly on the Congress to balance the budget. Now if it failed to do so, at the end of the fiscal year the President is called upon to perform a ministerial duty, and that is to tabu-

late the expenditures and the tax revenues—this is not an estimate, it comes at the end of the fiscal year. And then he makes a ministerial finding of how much surtax it would take to recoup that deficit. The surtax would be applicable in the following year.

Another provision provides that in a time of national emergency, or a declaration of war, the Congress can suspend that requirement of this amendment. However, it is so written that they have to vote on it every year. The fact that a declaration of war might run for 5 years, or 10 years, or 20 years, is beside the point. Every year, if they wanted it set aside, they would have to vote.

Now, there are many features of all of these proposals, clearly subject to the will of the Congress as time goes by.

My proposed amendment calls for a three-fourth vote to suspend its provision. There is no magic about it; maybe it should be two-third. But in simple terms, the Congress has the responsibility of maintaining a balanced budget. If Congress fails to do it, then there is a surtax imposed, automatically; and that recoups that deficit.

I believe very strongly that there should be a self-enforcement provision. Suppose we just mandated a balanced budget—it would be a most difficult job to write priorities. We couldn't foresee the future in order to put priorities in the Constitution. There will be great controversy in the Congress to establish priorities. If there is no automatic self-enforcing provision, it is conceivable that a radical Congress could impose a tax that was a capital levy, adjourn, and the President would have to either sign a very destructive tax law, or violate the Constitution by permitting a default. The automatic surtax would always assure a balanced budget.

Also, if in carrying out a mandate to balance the budget a radical Congress might be debating a capital levy tax, and those opposed might want to use their power for extended debate, to filibuster. But they would not dare defeat the capital levy because it would produce a deficit in violation of the Constitution. The automatic surtax is needed for such situations.

Therefore, I feel very strongly that we must have a self-enforcing provision; one that puts discipline in this; one that also in addition is self-executing, is a fallback position.

Now, it may be that someone will come up with a better mechanism to have a self-enforcing provision. But, that is the explanation of why it is proposed.

Senator SCOTT. Well, Senator, you are the ranking member on the Finance Committee.

Senator CURTIS. That's correct, ranking minority member.

Senator SCOTT. How long have you been on that committee?

Senator CURTIS. It's 10 years on the Committee of Ways and Means now; and I believe that it's about 14 years, 14 or 15 years, that I have been on the Committee on Finance.

Senator SCOTT. Now, tell me, under this provision, would Congress enact the surtax, or would it go into effect upon the recommendation of the President, or the Speaker?

Senator CURTIS. Neither one.

Senator SCOTT. Does it require affirmative action by the Congress?

Senator CURTIS. No; it goes in automatically. Under the revised version the Speaker does not perform a ministerial duty; the President does.

I discussed with legal authorities as to where we should vest the power to perform this ministerial action after the fiscal year is closed: that is, to state whether or not there was a deficit. We concluded that inasmuch as the Executive collects the taxes, and has the records and books in the Treasury Department, that the ministerial duty of stating whether there was or was not a deficit, should fall upon the President. The tax is imposed by the terms of the Constitution; this operates automatically.

Senator SCOTT. Let me ask you, Senator, do you consider that the Federal expenditures at the present time are getting to be nearly uncontrollable on a yearly basis, and if this is true, does that result in continued deficits?

Senator CURTIS. We are, of course, faced with the necessity of defining the terms, first. As the Appropriations Committee faces its task, a great portion, more than 75 percent of the budget, is uncontrollable because existing law calls for certain payments to be made.

In many instances the expenditures are controllable only if the Congress repeals an authorization, or changes it materially.

Let me explain the difficulty. First, in a strictly legal sense, about 25 percent of the Federal expenditures are controllable in a given year. That is, major revisions of authorized programs would need to be made to lower 75 percent of the budget. I'm in favor of doing that: it's not impossible, but only in the sense that programs will have to be changed. For example, let's look at the controllability of Federal budget outlays for fiscal year 1976, and I draw my statistics from a recent publication of the Brookings Institution:

Relatively uncontrollable under present law are as follows:

	Amount (billions)	Percent
Total	$260.7	74.7
Payments for individuals (e.g. social security and medicaid)	165.1	47.3
Prior year contracts and obligations:		
Defense	23.5	6.7
Domestic	30.5	8.7
Other items (e.g. interest, revenue sharing)	41.6	11.9

Furthermore, those expenditures which are uncontrollable increased from 59.2 percent of the budget in 1967 to 74.7 percent in 1976. The Brookings Institution made the following comments about this trend:

> More than half of the increase is explained by one fact, the share of Federal spending allocated to national defense has declined, and defense spending is much more controllable than nondefense spending.

And:

> The nondefense portion of the budget is becoming more uncontrollable over time.

Furthermore, while Congressmen may frequently vote to reduce proposed appropriation bills, they continue to vote for huge increases in entitlement programs—for instance by relaxing eligibility requirements and raising benefit levels.

It is sobering to note the Treasury estimates of actual deficiencies in the Government liabilities of the following annuity programs as of June 30, 1974:

Social Security Administration (trillion)	$1.3
Defense Department retirement pay (billion)	147
Veterans Administration compensation and pensions fund to fiscal year 2000 (billion)	176.6
Civil Service retirement and disability fund (billion)	77.0
Railroad retirement system (billion)	9.8

One could argue that if 25 percent of the budget is controllable, this still leaves a good deal of flexibility. However, for practical purposes even this figure is too high. For example:

In national defense and international affairs $70 billion is theoretically controllable in fiscal year 1976 but:

(*a*). Civil service personnel savings are extremely difficult in any one year because there is severance pay, leave accumulation, and items of that kind which more than offset salary savings.

(*b*) Operation and maintenance cutbacks would severely limit Armed Forces readiness.

(*c*) Procurement and research cutbacks would mean slowing modernization.

So, in defense and international affairs, according to Brookings Institute, real controllable outlays are reduced to $3 billion or $4 billion in any 1 year. And in domestic services, for many similar reasons, the theoretically controllable $25 billion, unless we are willing to drastically cut programs, boils down to $2 billion or $3 billion.

In other words, in the short run, Federal Government expenditures have become almost completely uncontrollable. Those who talk of using Federal expenditures as a fiscal tool are totally unrealistic unless they wish to compound economic inefficiency beyond its present boundaries. Only tax manipulation is left. And the bias against raising taxes is so great that unbalanced budgets really mean continuous deficits.

Now, what I have said just now in answer to your question about controllability is intended to point out the difficulty of the problem we face: it's not a reason for not facing up to the problem, and not enacting a consequent limit on spending. It does point out the great difficulty.

The Federal situation is no different than any other level of Government. We vote certain payments and until that law is changed, they have to be paid. We borrow money—it has to be paid back, interest has to be paid.

I believe it will require the force of a constitutional amendment to bring a halt to expansion: and second, to bring a paring down of Government programs. We are suffering from the "Welfare State": it has been expanded and continues to expand.

I think we should get this amendment to the Constitution written in the Constitution as soon as possible, because it will be a great restraint on irresponsibility.

I believe if the Congress is faced with cutting spending, or raising taxes, it will cut expenditures. It so happens that if the Congress failed to carry out the constitutional mandate and an automatic tax increase went into effect, it would be announced 2 weeks before election. I think that would be a very wholesome thing.

Senator SCOTT. Senator, we appreciate your contribution, the fact that you have introduced this proposal, and I am pleased to be a cosponsor of it. With the explanations you have made, I wonder if, for

the record, you would give us an analysis, or a comparison of your proposal and the proposal of Senator Talmadge, so that the committee would have your views of one in comparison with the other?

We are united in the feeling that our budget must be brought under control, and that it must be done through a provision in the Constitution. This problem is so great, and so much is at stake, that if we are to have 200 more years as glorious as the past 200, those who agree as to the intensity of the problem must do something about it, must unite. In that sense, Senator Talmadge and I are in the same position on the matter.

Senator SCOTT. Well, thank you again, Senator. Is there any further statement or comment you would care to make?

Senator CURTIS. Well, you have been most patient, but I will impose for about 3 minutes more—I'll try to make it 2 minutes.

Senator SCOTT. Go ahead, sir.

Senator CURTIS. The legislative budget for fiscal year 1976 was adopted with a $67.2 billion deficit—illustrates the great defect of the present budget procedure, it doesn't require a balanced budget; it's merely a consensus of opinion as to how great a deficit ought to be.

I voted for a balanced budget. I didn't think it would be intellectually honest to cast that vote for a balanced budget without stating where to make the cuts.

I want to go back to what is controllable. Most things are controllable if we have the courage to cut programs—not all, but many things are controllable. Here is what I propose, to eliminate $67.2 billion of outlays. This was last spring. First I would repeal the recent tax reduction, that would save $23 billion. It was wrong to cut taxes when we had to borrow money.

I would abolish revenue sharing. Why should we have revenue sharing when we have to borrow money to send out the checks? That would save $6.3 billion. I do not think that when we have a debt of this size we should have foreign aid of $4 billion—that would be cut $3 billion. I think the space program has already been cut quite a little bit, but I would cut that by half a billion dollars.

In urban transportation, we are not spending that money on research and development, or new methods of transportation; we are underwriting deficits of streetcar lines and buses. We have no business doing that. I would cut that by $1 billion.

Community services and community development, if we went back to the 1974 level, we could save $1 billion on this.

On education, 10 years ago we were spending $3 billion, it's now $7 billion. By going back to the 1974 figure we could save $2 billion. I think we ought to appeal to the educators and say, "How would you change all of those programs to do the most good with the money you have?" Just by going back to the 1974 level we would save $2 billion.

Manpower and social services were supposed to cost a few hundred thousand dollars; this jumped up to $5 billion. We could easily cut that back by $1.2 billion.

Our health programs 10 years ago were costing $3 billion out of the Federal purse, today it's $30 billion; that is a tenfold increase. We are taxing laborers to pay the medical bills of the richest people in the country, if they happen to be 65 or over. I think that could

be reduced by $5 billion easily. Now, it's uncontrollable only in the sense you have to change the law.

We increased retirement pay various times, and wages in various Government programs. I think we should have waited by postponing all of that, and we could have saved $12.9 billion—almost $13 billion.

Law enforcement is a local responsibility. Ten years ago we were spending half a billion dollars on law enforcement; now it's $3.5 billion, having increased sevenfold. We haven't cut crime. I would cut that by $1 billion.

We could take $2 billion off food stamps. In welfare reform, we should save $2 billion.

And then, I think, you find out when you add that up, it would eliminate the deficit. And, if we didn't have to borrow $67 billion this year—and I'm afraid it is going to be more—we would save $2 billion in interest.

I want to thank the distinguished Senator and the other Senators who are appearing here today; and particular thanks to Senator Fong and the staff, who have been so patient.

Senator SCOTT. Thank you very much, Senator.

[The complete statement of Senator Carl T. Curtis, and attachments, are as follows:]

STATEMENT OF SENATOR CARL T. CURTIS BEFORE THE SUBCOMMITTEE ON CONSTITUTIONAL AMENDMENTS OF THE SENATE COMMITTEE ON THE JUDICIARY ON SEPTEMBER 23, 1975

Mr. Chairman, I wish to extend my thanks to you, Senator Fong, and to the chairman of the subcommittee, Senator Bayh, for making this hearing possible. I also wish to express my gratitude for the help of my colleague from Nebraska, Senator Hruska. As the ranking minority member of the Committee on the Judiciary, he has been most helpful to me. Senator Hruska supports the objective of this proposal and I am happy to report that he plans to testify when these hearings are resumed.

It is my belief that the question we shall be considering today and in subsequent hearings may be one of the most fundamental and important public questions to which this Congress can address itself.

It is abundantly clear I am not alone in this opinion.

We shall be hearing from distinguished Members of Congress, as well as from perceptive and deeply concerned members of State legislatures all of whom share with us a deep concern for the rapidly deteriorating fiscal integrity of our Nation. We shall hear also from eminent economists from the North, from the South, from the West. All are profoundly concerned with the problem we shall be considering. At this very moment we are looking overseas and see a nation, the United Kingdom, whose desperate outlook is closely related to a government spending policy which is heading that great nation toward a disastrous outcome which even the most optimistic see as little short of hopeless. There is a certain point at which only heroic measures can stop a runaway deterioration.

Here at home we see our own nation's most populous city hovering on the edge of bankruptcy. The same men whose policy of deficit spending brought their great city to its knees seem helpless to restore the economy of the city which they themselves have wrecked through unwise and reckless spending policies.

The rapidly accelerating pace of public spending across our nation has now reached such a pitch, that some men, formerly advocates of almost unlimited spending, are now becoming alarmed. They—some of them—are ready at last to join us in seeking a solution to this problem before it is so far out of hand an uncontrollable inflation will become unavoidable.

The helplessness of these politicians is evident to everyone, once the pace of the trend towards bankruptcy reaches a critical point. In New York City they now have to go begging to their state legislature. Yes, representatives of this great city come begging even to the Federal government.

If bankrupt states should come to the Federal government and then other bankrupt cities should join the company of beggars, how long could even the

credit of the Federal Government endure such a lethal drain? Every responsible analyst in the country is alarmed by this trend.

It is not so many years ago that a hundred million marks would not buy a loaf of bread in Berlin. We must not, we will not, tolerate a trend that could in all realism, gain such momentum in our nation.

The very responsible and distinguished witnesses who intend to testify today and later before this committee feel deeply, I know, the present danger of our situation.

I look forward with the greatest interest to hearing their observations, especially as they relate to the proposal my distinguished colleagues and I have offered for a constitutional amendment which would require a balanced budget. The elements of the proposal are spelled out in S.J. Res. 55, and I shall not take time from other witnesses to specify the particulars, at this time. Before these hearings are complete I expect a full discussion of the proposals embodied in S.J. Res. 55.

Let me say, Mr. Chairman, the pervading fear is that the Congress will not show itself capable of resisting the temptation to spend and spend beyond the resources of even our great nation. The past history of fiscal recklessness is not very reassuring on this point.

We all hope that the new Senate Committee to give consideration to the budget will be able to do the job in the face of Congressional pressure for excessive and reckless spending.

But dare we hope for such a miraculous change in the Congress? Dare we leave the decision solely in the hands of a Congress which has brought us, over years of time, to the dangerous situation in which we find ourselves today? Will the Committee on the Budget, composed as it may be of men of highest principle and greatest character, find it possible to resist the pressure from a Congress which has been so accustomed to attempt the solution of every social evil known to man, by simply throwing money at the problem?

My colleagues and I who have sponsored S.J. Res. 55 do not believe we dare leave the decision to Congress alone, without any outside restraints, after such a history of reckless spending. We are joined in the belief that nothing less than an amendment to the Constitution will serve. Nothing less, we believe, will be adequate restraint on a Congress which has become "hooked" on spending.

Before completing my remarks, I wish to spend a few moments to dispel certain myths that have been propagated and nourished by the advocates of unrestrained Federal spending.

It is a commonplace, for example, for some of the press to refer to the question of balancing the Federal budget in a "worn-out slogan which is meaningless to most people." Certain elements of the press insist that people just don't care about this question. Other press representatives call it a "non-issue"—"a trumped-up artificial issue of real consequence."

Perhaps the best way to examine the validity of such statements is to get some facts on what people are really thinking.

Gallup conducted a poll not long ago that is very relevant to our consideration. Gallup interviewers asked a representative cross-section of the United States population the following question:

"How important do you think it is to balance the Federal budget—very important, fairly important, or not so important?"

What these people told Gallup is important.

To begin with, Gallup found that over 90% of the entire population had thought about this question and did have a definite opinion on balancing the budget. Only a minute fraction, only 7%, had no opinion. It is clear that the question of a balanced budget is on the minds of almost all of the people of this country.

Those who did have opinions—almost everyone, 83% that is—favored balancing the budget. They thought it was important.

And these were no off-hand opinions. Sixty per cent of all people asked said the question of balancing the Federal budget was very important to them.

Those who tell us the public is indifferent to this question are either ignorant of the facts, or are deceiving us. They better take another reading.

Another myth propagated by the advocates of big Federal spending is that only the rich really care about the problem. Gallup found that the opposite is true. It was in the highest income brackets that was found the most apathy. Only 52% of the relatively well-to-do persons believe balancing the budget to be very important.

On the other hand, people below $10,000 a year (down to $7,000) were much stronger in their beliefs on this issue: *70% of the relatively low-income persons*

believed balancing the Federal budget to be very important in comparison with only 52% of the well-to-do.

Let's look at the very bottom economic group—those with income less than $3,000.

Gallup found that the poor were much more concerned than were people in the top income bracket.

No. It is not a rich man's issue. On the contrary, it is even more a poor man's issue. It is, in fact, every man's issue. And, despite the deluge of propaganda to the contrary, *the poor know very well that they are the hardest hit by unbalanced budgets and consequent inflation.* Let us not be misled on this issue any longer.

Gallup also analyzed his findings by occupation. He found that manual laborers were more concerned about balancing the budget than any other occupation; and farmers were close behind them in their intensity of feeling on the matter of a balanced budget.

And who were least concerned? The professional and businessmen were the least concerned!

Individuals in the press and in politics should examine closely their belief that only businessmen and professionals care about a balanced budget. They are wrong.

Another myth propagated by the big spenders and their supporters in the press and on TV, is that a balanced budget is a partisan issue. It is often presented by the liberals as "a worn-out issue and dear only to the Republicans."

Let us look again at the Gallup findings.

According to the Gallup analysis, people who consider themselves *Democratic voters are more intensely concerned than are Republicans* with the need for a balanced budget.

Gallup found that 63% of the Democrats believed the question of balancing the budget to be very important compared to 55% of the Republicans. In fact, more Independents also were concerned than were Republicans.

There are still other myths about balancing the budget.

Sometimes the question of a balanced budget is presented by propagandists disparagingly as an "old folks" issue. The young are supposed to be less interested in such matters.

Here again, the Gallup analysis displays the falsity of such a belief. Two groups of young people, one group aged 18 to 24 and another group 25 to 29 were found to be more keenly concerned with balancing the budget than were persons over 50 years of age.

The fact is clear. Young people are more clearly aware than some politicians may believe. Young people know they are deeply and importantly affected by unbalanced Federal budgets, and the consequences that flow therefrom. It is clearly not an "old folks" issue only.

Spendthrift politicians who believe they are appealing to young people when they advocate reckless spending would be wise to study the actual public opinion of the young people on this issue.

Finally, let me say I do not lean entirely on Gallup for such information. Mr. Louis Harris found last year that 76% of the entire population believes that Federal spending is the major cause of inflation.

The people are ahead of the politicians on this question.

The poor really understand they are the hardest hit. They are not misled.

The farmers and the manual laborers know how much damage is done to them by the avalanche of Federal spending.

The young voters are not deceived by reckless promises.

And finally, it is not a partisan Republican issue as some have claimed. I repeat: a higher proportion of Democrats and of Independents are worried about an unbalanced budget than are Republicans.

And, I repeat again, 76% of the entire population believe Federal spending is the major cause of inflation.

It seems to me appropriate to begin these hearings by dispelling some of the more obvious myths that have beclouded the issue.

It seemed furthermore useful to establish beyond question the great importance to the American public of the matter we shall be considering.

The interest on our national debt is in the neighborhood of 35 billion dollars this year. I might call attention to the committee that with 35 billion dollars the United States government could pay the entire present cost of the Medicare program, the Medicaid program, the highway program, the running of our agricultural program and the program for the development of our water and

power resources, including conservation, and recreational purposes. We could pay all of this out of what we are paying for interest.

I am indebted to many people for help on this resolution. For over 25 years I have struggled with the job of trying to write a constitutional amendment that would put the Federal government on a pay-as-you-go basis. The late Senator Harry Byrd, Sr. of Virginia, and the late Senator Styles Bridges from New Hampshire and I introduced a proposed constitutional amendment. At that time we thought we had a good idea for making our proposal self-enforcing. We offered a constitutional proposal that prohibited Congress from adjourning until the budget was balanced. Time has proven that that would be ineffective, because Congress now stays in session all year long. The enforcing provision would not have been effective.

It was the distinguished Senator from Delaware, Mr. John Williams, who made the suggestion that there ought to be an automatic surtax that would go into effect if the Congress did not take the necessary steps to balance the budget by other means. Senator Williams was talking about a statutory provision. This idea, however, has been incorporated in the constitutional provision. Here is how this proposal would work.

In brief, the proposed constitutional amendment would require that budgetary deficits be offset by a uniform income surtax to be levied with respect to the calendar year immediately following the fiscal year in which the deficit was incurred. The rate of the surtax would be calculated by the President and the surtax would be imposed automatically unless suspended by Congress by reason of a grave national emergency. Section 1 of the proposed constitutional amendment requires that the Congress, in the exercise of its legislative functions, shall make all reasonable efforts to balance the Federal budget.

Section 2 of the proposed constitutional amendment requires that the President, within 20 days after the close of each fiscal year, determine the total receipts and outlays of the Federal government for such fiscal year. For this purpose, "receipts" and "outlays" are all encompassing and, specifically, include trust fund receipts and trust fund expenditures. Except as noted below, the only receipts and outlays excluded are those from the sale and redemption of debt obligation. However, interest paid with respect to the public debt is to be regarded as an "outlay" for this purpose. The term "receipts" also does not include revenue derived from any surtax imposed pursuant to the proposed constitutional amendment.

If, for a particular fiscal year, outlays exceed receipts, then section 2 of the proposed constitutional amendment requires that the President determine the rate of income tax surtax necessary to produce receipts equal to the amount by which outlays exceeded receipts. Once the President makes the foregoing determinations, he is required to submit, within the 20-day period, the surtax rate to the Congress by special message. The proposed constitutional amendment is so drafted that the income tax surtax would consist of a single uniform surtax rate applicable to all persons (both individuals and corporations) having Federal income tax liability.

Section 3 of the proposed constitutional amendment provides that the income tax surtax, at the rate determined by the President, shall apply to the calendar year immediately following the fiscal year in which the budgetary deficit was incurred. In the case of taxpayers not on a calendar basis, the income tax surtax is to apply to that portion of the income tax liability attributable to the portion of the taxpayer's fiscal year or years which fall within the calendar year for which the income tax surtax is imposed.

Section 4 of the proposed constitutional amendment permits the Congress, under carefully circumscribed standards, to suspend the income tax surtax for all or part of the calendar year with respect to which it would otherwise be imposed. Under the proposed amendment, suspension of hte otherwise applicable income tax surtax requires a Congressional finding that a "grave national emergency" exists. If such a finding is made, then the income tax surtax may be suspended by a concurrent resolution agreed to by a rollcall of three-fourths of all of the members of each House of Congress.

Section 5 of the proposed constitutional amendment provides that the amendment shall apply with respect to the first fiscal year beginning after ratification of the amendment.

Section 6 of the proposed constitutional amendment authorizes the enactment of appropriate legislation to enforce the amendment.

The Budget Is Out of Control

(By Carl T. Curtis)

A distinguished economist has likened managing the American economy to driving a car by looking into the rearview mirror and using the accelerator but not the brake. And that's exactly what has been happening. In fact, the car is out of control! Ralph Nader would say it's "Unsafe At Any Speed."

Let's look at the record. In fiscal year 1975, the Federal budget deficit was 44.2 billion dollars. Budget outlays were $325.1 billion, or $11.7 billion above the budget estimate.

Fiscal year 1976 will be worse. The President started out by proposing a budget with a deficit hovering around $50 billion. His mid-year review upped the projected deficit to $59.9 billion. Administration officials were predicting that it would more likely be $80 billion by year's end. And some responsible elements in both the administrattion and the Congress were mentioning a deficit close to $100 billion. Deficits in triple-digit billions seem to be on the way.

These deficits are no surprise. They're the natural outcome of a lax and irresponsible attitude toward profligate Federal budgets in too many years since World War II. Federal budget deficits were incurred in every year save one since 1961, reflecting Federal expenditure increases from an expenditure budget of $97.8 billion in 1961 to an outlay of $325 billion in 1975.

I want to share with you the results of a recent careful in-depth study of government expenditures over the 20 years from 1952 to 1972. Of the 20 fiscal years from 1953 to 1972, only four had budgetary surpluses (1956, 1957, 1960 and 1969) for an aggregate surplus of $10.8 billion, while the other 16 budgets produced a combined deficit of $134.8 billion.

It took 163 years, from 1789 to 1952, for Federal expenditures for domestic purposes to reach a level of $13 billion. In the succeeding 20 years they multiplied *tenfold* jumping from $13 billion to $134 billion. The entire Federal domestic expenditure budget of that last year could have been financed from the combined deficits of the preceding 20 years! It boggles the mind to imagine for a minute that we could have had the equivalent of a year of domestic expenditures without any Federal taxes at all.

In those same 20 years the Federal public debt went up $182 billion—and this, by the way, was accompanied by an increase of $145 billion in the state and local debt. I speak only of the formal debt. We have committed ourselves, through authorization bills, to vastly greater obligations. For example, the Treasury calculated the unfunded liability of the Social Security system at $2.4 *trillion* as of June 30, 1974!

I want to talk for a minute about "reordering national priorities", a phrase much in vogue in the past few years. No one can object to a continuous review of our national goals and to changing the emphasis of government activities to meet the needs of the times. In fact, it's healthy—if it's done honestly and forthrightly.

This has not been the case. The deficits of which I have been speaking were not caused primarily by holding expenditures level and cutting taxes. Just the opposite: they were primarily the result of ever-increasing expenditures for domestic services. In fact, deficits *facilitated* "reordering national priorities" toward more welfare programs. While defense expenditures in those years dropped from 54 percent of the national budget to 30 percent, the share of domestic services rose from 19 percent to 55 percent. Outlays for health, education and welfare by the Federal government increased an appalling 1,416 percent during the decades 1953–1972 alone. During those 20 years, Federal domestic services expenditures soared from 3.9 to 12.1 percent of the Gross National Product (GNP), while defense expenditures dropped from 14.3 to 7.2 percent of GNP. I submit that we reordered priorities to provide the services of a welfare state, while depriving the voters of the right to assess the costs of these services to them, either in terms of taxes or of inflation. Instead, we added nearly $135 billion to the Federal debt.

In fiscal years 1975 and 1976 the cumulative additional deficits may well be $140 billion more. I further submit that this method of "reordering national priorities" is *flagrantly dshonest.* One recent study carefully cataloged the sudden and unprecedeuted explosion of Federal activities in the broad field of social welfare and observed: "Had this been financed by equivalent boosts in taxes, the American people would have been fully aware of what was happening. But the

primary methods of financing the multiplication of social benefits and services, to the extent to which the added expenditures exceeded the automatic growth of revenues from economic advance, where (a) budgetary deficits, that is, inflation, and (b) a cut to less than half in the share of resources allocated to national security."

Deficits incurred in this way carry the false message that we can get *something for nothing.* Our appetite for private goods is disciplined by the necessity of paying for them. Public services financed by deficits appear to be "for free". No wonder government prefers deficit-induced inflation to taxation. The battle cry today appears to be "representation without taxation".

And let there be no doubt that inflation in the United States in recent years has been partially fired by Federal deficit spending. Again, let's look at the record. There have been four periods characterizd by inflation since World War II. *In the initial years of each period the Federal government incurred a significant budget deficit.* Furthermore, we have had nearly catastrophic inflation in the United States beginning with the "guns and butter" excesses of the Johnson administration. And Federal deficits were incurred in every year save one since 1961. Inflation reached double digit proportions in 1974. *Double-digit billion dollar deficits* were incurred in 1971, 1972, 1973 and 1975. Some forecasts suggest we are flirting with *triple-digit* deficit billions as early as the current fiscal year. And we're supposed to be fighting inflation.

Let's be blunt with the spectres raised by a deficit of $80 billion in a single fiscal year. This order of debt must be financed in two ways: by Treasury borrowing in the money markets and by expansion of the money supply. Treasury borrowing will hike interest rates and provide competition with business for private capital, thus slowing business expansion and dampening growth in the job market. Expansion of the money supply is tantamount to printing more money to fire inflation. We are fighting inflation by soaking up investment capital which could help provide jobs on the one hand, and by creating more money to drive up prices on the other. I submit this is truly a self-defeating policy.

This paradox is compounded in another way. Part of the deficit is created by temporary tax cuts to spur the economy. But the greater part of the deficit is incurred by greater spending. These spending policies contribute to inflationary prices that are really hidden taxes. By what other name than a tax can you call the result of policies that produce higher money incomes but lower real incomes? In 1974, real disposable income decreased by 3.4 percent. While real incomes decrease, money incomes rise. This puts some people in higher tax brackets and their tax bills increase. For the economy as a whole it has been demonstrated that tax revenues rise much more rapidly than money income during a period of rapid price increases. Recent studies estimate that a 10 percent inflation rate would increase tax revenues by 14.7 percent in one year alone.

What is still more unconscionable is that the poor, the aged, and others on fixed incomes must pay most heavily. In 1974, inflation increased the direct tax burden on low and middle income taxpayers more than on wealthy individuals. And that was the year that real disposable income declined by 3.4 percent. We are in effect asking poorer wage earners and the aged and the sick to foot the bill to help provide jobs or out-and-out welfare for the young and resilient.

Continued inflation can be debilitating enough. But America has been plagued recently by a new economic disease: Stagflation. Persistent inflation is accompanied by persistently intolerable levels of unemployment. Keynesian economists have cried spend more! Create greater Federal deficits, and unemployment will abate. But anyone who will open his eyes to reality will see that this has failed. Instead of more jobs, we have continued high unemployment and higher prices. It is abundantly apparent that the days of the 1960's when economists believed that they had discovered how to "scientifically manage" the economy are long past—if they ever existed. Some of us are beginning to admit this. The Federal Reserve Board of St. Louis believes that increases in government spending and budget deficits are the fundamental cause of monetary expansion and inflation.

I have titled my remarks on deficit spending "The Budget Is Out of Control", and Isubmit that deficit spending has resulted in a stagnation that is out of control. But here is another way in which things are out of control. Federal expenditures themselves are out of control. In the budget which Congress considered for fiscal year 1976, only about 25 percent of Federal expenditures are controllable without major revisions of authorized Federal programs. This compares with 40 percent in 1967. And for many practical reasons the 25 percent

figure is much too high. In any practical sense, only $3 to $4 billion of national defense and international program budgets are controllable in fiscal year 1976 and only $2 to $3 billion of the domestic budget are controllable in this year. Spending not only has consistently increased, but apparently "practical" and political forces keep it at high levels. A recent Brookings Institution publication stated: "How can fiscal policy be used to temper an inflationary surge in the economy when spending is fixed? The answer is Taxes."

But we all know that Presidents and Congresses run from raising taxes. The result in recent years has been uncontrolled deficits, uncontrolled inflation and uncontrolled growth in government. I might point out here that the tentacles of the Federal government have reached down into state and local governments by grants-in-aid to make their budgets uncontrollable as well.

This is another, more frightening dimension in which things are getting out of control as a result of deficits, profligate spending and bigger government. That is the very fabric of the American society. Teachers, police and garbagemen scramble pell-mell for the cities' dollars by potentially crippling strikes. The aged and the poor have to scramble for the largesse of government to help maintain a decent standard of living as inflation is rampant. Financial institutions are weakened, some on the brink of collapse. There are appalling increases in white-collar and violent crimes. High interest rates and tighter money stifle home-building and indirectly may stifle homemaking itself. And all the government's money and all the government's men can't seem to put an effective education system together again. Even liberal economist Walter Heller has observed, "When inflation reaches double-digit proportions, the costs in terms of social conflicts and tensions it generates and the uncertainties and loss of confidence in the dollar yardstick it may breed are important intangibles that economics cannot ignore. . . ."

The saddest paradox of all is that as government expenditures, government deficits and economic inflation get out of control, the government itself tries to impose more and more control. Individuals and businesses also lose control to the government. I need not go into the many areas of our lives subject to government control; they have been well documented. But since we've been exploring inflation let me point out one fact. In every serious inflationary period since World War II, wage and/or price controls have been proposed or imposed for the U.S. economy. The current jargon for controls or guidelines is "incomes policy."

Economist Roger Freeman forcefully has cast the issue stating: "The basic philosophical and political issue is, of course, personal freedom. If we define personal freedom as the ability of the individual to make meaningful choices among known alternatives, then it follows that the extent of his freedom depends on the range of decisions he can make for himself and his family in comparison to those being made for him. One possible measurement of an individual's freedom is the share of his economic resources he can allocate to his various wants according to his own wishes versus the share the Government allots for him."

I propose that we regain the control of government expenditures. I propose that we give back to individuals and businesses the control of their affairs. I propose that we require the Federal budget to be balanced.

[S.J. Res. 55, 94th Cong., 1st sess.]

AMENDMENT intended to be proposed by Mr. CURTIS to S.J. Res. 55, joint resolution proposing an amendment to the Constitution of the United States relative to the balancing of the budget, viz: On page 2, beginning with line 2, strike out all through line 22 on page 4 and insert the following:

"SECTION 1. In exercising its powers under Article I of the Constitution, and in particular its powers to lay and collect taxes, duties, imposts, and excises and to enact laws making appropriations, the Congress shall seek to assure that the total outlays of the Government during any fiscal year do not exceed the total receipts of the Government during such fiscal year.

"SEC. 2. Not later than the twentieth day after the close of each fiscal year, the President shall—

"(1) ascertain the total receipts of the Government during such fiscal year, not including any receipts derived from the issuance of bonds, notes, or other obligations of the United States, and not including any receipts from any income tax surtax imposed under this article;

"(2) ascertain the total outlays of the Government during such fiscal year, not including any outlays for the redemption of bonds, notes, or other obligations of the United States; and

"(3) if the total receipts described in paragraph (1) are less than the total outlays described in paragraph (2), determine the percentage rate of income tax surtax, to be imposed as provided in section 3, which is necessary to provide an additional amount of revenue equal to the amount by which such total receipts are less than such total outlays, and transmit to the Congress, by special message, the rate of income tax surtax so determined.

"SEC. 3. Subject to the provisions of section 4, an income tax surtax, at the rate determined and transmitted by the President under section 2—

"(1) shall be effective for the calendar year following the close of the fiscal year with respect to which the determination was made, or for so much of such calendar year for which such surtax is not suspended under section 4, and

"(2) shall apply, as an additional income tax for the period for which it is in effect, with respect to the income tax liability of each taxpayer which is attributable to the portion or portions of such taxpayer's taxable year or years which fall within such period.

The income tax liability attributable to a portion of a taxable year falling within a period shall be based upon the ratio of the number of days in the taxable year within such period to the total number of days in the taxable year.

"SEC. 4. In the case of a grave national emergency declared by Congress (including a state of war formally declared by Congress), the income tax surtax which would otherwise be in effect for a calendar year under section 3 may be suspended for such year, or a portion thereof, by a concurrent resolution, agreed to by a rollcall vote of three-fourths of all the Members of each House of Congress, with such resolution providing the period of time, if less than the whole calendar year, during which such surtax is to be suspended.

"SEC. 5. This article shall apply with respect to the first fiscal year beginning after the ratification of this article and each succeeding fiscal year.

"SEC. 6. The Congress shall have power to enforce this article by appropriate legislation.".

SUMMARY OF SENATE JOINT RESOLUTION 55

(as proposed to be modified)

S.J. Res. 55 (as proposed to be modified) proposes an amendment to the Constitution of the United States relative to the balancing of the Federal Budget. In brief, the proposed Constitutional amendment would require that budgetary deficits be offset by a uniform income surtax to be levied with respect to the calendar year immediately following the fiscal year in which the deficit was incurred. The rate of the surtax would be calculated by the President and the surtax would be imposed automatically unless suspended by Congress by reason of a grave national emergency. Section 1 of the proposed Constitutional amendment requires that the Congress, in the exercise of its legislative functions, shall make all reasonable efforts to balance the Federal budget.

Section 2 of the proposed Constitutional amendment requires that the President, within 20 days after the close of each fiscal year, determine the total receipts and outlays of the Federal government for such fiscal year. For this purpose, "receipts" and "outlays" are all encompassing and, specifically, include trust fund receipts and trust fund expenditures. Except as noted below, the only receipts and outlays excluded are those from the sale and redemption of debt obligation. However, interest paid with respect to the public debt is to be regarded as an "outlay" for this purpose. The term "receipts" also does not include revenue derived from any surtax imposed pursuant to the proposed Constitutional amendment.

If, for a particular fiscal year, outlays exceed receipts, then section 2 of the proposed Constitutional amendment requires that the President determine the rate of income tax surtax necessary to produce receipts equal to the amount by which outlays exceeded receipts. Once the President makes the foregoing determinations, he is required to submit, within the 20-day period, the surtax rate to the Congress by special message. The proposed Constitutional amendment is so drafted that the income tax surtax would consist of a single uniform surtax rate applicable to all persons (both individuals and corporations) having Federal income tax liability.

Section 3 of the proposed Constitutional amendment provides that the income tax surtax, at the rate determined by the President, shall apply to the calendar year immediately following the fiscal year in which the budgetary deficit was incurred. In the case of taxpayers not on a calendar basis, the income tax surtax is to apply to that portion of the income tax liability attributable to the portion of the taxpayer's fiscal year or years which fall within the calendar year for which the income tax surtax is imposed.

Section 4 of the proposed Constitutional amendment permits the Congress, under carefully circumscribed standards, to suspend the income tax surtax for all or part of the calendar year with respect to which it would otherwise be imposed. Under the proposed amendment, suspension of the otherwise applicable income tax surtax requires a Congressional finding that a "grave national emergency" exists. If such a finding is made, that the income tax surtax may be suspended by a concurrent resolution agreed to by a rollcall of three-fourths of all of the members of each House of Congress.

Section 5 of the proposed Constitutional amendment provides that the amendment shall apply with respect to the first fiscal year beginning after ratification of the amendment.

Section 6 of the proposed Constitutional amendment authorizes the enactment of appropriate legislation to enforce the amendment.

Senator FONG. Senator Talmadge

STATEMENT OF HON. HERMAN TALMADGE

Senator TALMADGE. Thank you, Mr. Chairman, I, too, want to join my distinguished colleague, Senator Curtis, in thanking you and the chairman of the subcommitee, Senator Bayh, for holding these hearings.

Mr. Chairman, I appreciate this opportunity to testify in behalf of my proposed amendment to the Constitution of the United States to require a balanced Federal budget except in time of national emergency declared by the Congress.

I want to point out that Senator Curtis' objective and my objective are essentially the same; our approaches are somewhat different. I'm not wedded to any particular approach, just as long as we get action that will require the Congress to balance our budget.

First of all, I want to state that I am fully aware of the severity of this proposal. It is drastic. It is strong medicine. But I submit that it is the required antidote for an ailing economy which, like a cancer, makes our Nation weaker and weaker every year.

Second, the intent of my proposed amendment is very plain. It would impose a strict discripline on the Congress of the United States to stop spending our Nation into chaos.

I would bind Congress from its own extravagant mischief.

It would be binding on the administration and the thousands of faceless bureaucrats who play so free and easy with the taxpayers' money.

It would serve notice on the President and departments or agencies that when they want some new spending authority, they must send it up to the Hill along with the indication of how it will be paid for—in the current fiscal year.

Furthermore, my proposed amendment would be binding on the people to be prepared to pay for what they demand and receive. People must stop demanding of the Government more than can be delivered. They must be made to realize that there is no such thing as a free ride on the largesse of the Federal Treasury.

It is the people's money when the Government takes it away from them in taxes. It is still the people's money when the Government

spends it—and then squanders tens of billions of dollars more in deficits each year—and then imposes a heavier burden still on the workers of this country—either through taxes that border on outright confiscation, or through the tax of inflation.

There is no tax more cruel. Inflation ravages the wage earner and robs him of his labor. It devastates helpless widows, the disabled, aged retired persons, and others in similar straits who must live on fixed incomes. It makes social security and retirement benefits a mockery.

Moreover, with the proliferation of generous, taxfree public assistance programs, and the inflationary raid on the paychecks of workers, welfare becomes more attractive and profitable in many instances than a job.

This no doubt will rankle many people who have a tendency to blame Congress and Government for all the ills of our country. But the fact remains, and I firmly believe in this principle, the people of the United States will get the kind of Government and as much Government as they allow.

When enough people demand that the Government stop mortgaging their children, and their children's children, and stop threatening to reduce the United States to the twilight of a third-, or fourth-rate power, I am convinced there will be a rapid turnaround in Federal spending policies.

This is not an attempt to pass the buck to the people. I cannot say Congress is guilty of no more than acquiescing to the pressures and demands of the electorate in devising spending programs that are pleasing to the people, but poison to the economic stability.

That is just not so. We are all to blame. Congress is guilty of failing to resist the siren song of spending its way to favor with the American people. Congress must accept responsibility for not only failing to exert leadership to curb the greedy spending appetite, but also for feeding that appetite.

We hear Federal deficits referred to as the "Nixon deficit," or the "Johnson deficit." Make no mistake about it, whenever the U.S. Government spends more money than it takes in, that is a congressional deficit. Congress has the power to spend. It has the power not to spend.

It is unimportant whether deficits have been incurred under Democratic or Republican Congresses or administrations. What is important is that these deficits add up to a national debt of $600 billion. What is vital to the security of our Nation is that there seems to be no end in sight to deficit spending, unless Congress at long last decides to take the initiative and put the issue before the people.

The power of the purse is so strong and the spending habit so addictive that I believe the only escape is through a mandatory constitutional restriction. We are fact reaching the point where the choice becomes narrow indeed. I fear that if the U.S. Government is allowed to pursue its present course, it eventually will be catastrophic for our Nation and the rest of the free world.

Anyone who doubts the potential severity of the situation need only consider the economic impotency of Great Britain and the bankruptcy of New York City. The principal difference between our present plight and that of New York is that the Federal Government can monetize the debt and print more cash.

That has been past policy and practice to the extent that the American dollar is based on faith, not gold. And, that faith is shaky in capitals throughout the world.

It's time to start facing facts. They stand clear, unimpeachable, and ominous. In assessing what got us into this mess, let me quote from the Secretary of the Treasury; says Mr. Simon:

> It is clear to me that we have more government than we need, more government than most people want, and certainly more government than we are willing to pay for.

One can go back to the end of World War II to trace the course of deficit spending, but I will not burden the committee at this time with a statistical recitation of facts and figures which are readily available, and which I know you will get from the staff and other witnesses.

However, it is instructive to take 1965 as a starting point. That's when massive deficit spending virtually became a fiscal way of life for the Federal Government. We, of course, have had multibillion-dollar deficits before, especially in times of war, but nothing before to equal the runaway spending of the past decade.

That's when spending beyond our means really began to gain momentum. That's when we started a 10-year economic slide. It's been downhill ever since. The question now becomes one of national security. Are we going to keep sliding uncontrollably until we go off the precipice into national bankruptcy or worse?

We recall the Revenue Act of 1964, when Congress enacted a $12 billion reduction in personal and corporate income taxes. Along with that tax cut there was supposed to be a Congressional and Presidential commitment to put a brake on Federal spending.

Unfortunately, we almost immediately went off in the opposite direction.

Congress paid no attention to the escalating cost of the war in Vietnam. It blithely proceeded to indulge the Nation in a "guns and butter" economy. It was the advent of the so-called "Great Society." The congressional pastime of throwing money at problems to make them go away become a national sport.

Since that time we have been plagued by deficits totaling almost $170 billion—and that's not taking into account the projected $60 to $70 billion deficit for the current fiscal year.

The wholesale price index has leaped by more than 60 percent. The Consumer Price Index has increased by more than 50 percent. The purchasing power of the dollar has fallen by more than a third.

Just as rampant inflation is the offspring of irresponsible government spending, recession is spawned by inflation. We see that in operation now. We see increased Federal spending now to cure recessionary illnesses brought about by inflationary spending in the past year.

This new spending and the tax cuts will saddle Government with the largest deficit for fiscal year 1976 in the history of our Republic. It may temporarily reverse recession, but it also threatens to roll up another wave of inflation, worse than ever before, which in turn can sink us into another recession.

According to Secretary Simon, Government borrowing in this fiscal year will total 80 percent of the capital market. That creates tight money, drives interest rates skyhigh, denies private industry of vitally needed investment capital, and depresses the housing and automobile

industries, and virtually all private enterprise which is the wellspring of our economy.

We have a right to ask, the American people have a right to ask, Where will it end? If we do not have the good sense to learn from the repeated mistakes of the past, then the future of our country is bleak indeed.

It is time to install machinery in the Government that will compel balanced budgets, unless an emergency declared by Congress dictates otherwise. We can reduce expenditures to bring them in line with revenue. We can increase taxes to cover expenditures. Or, we can combine the two approaches.

Balancing the Federal budget is absolutely essential if we are to continue as the most powerful, the most wealthy, and the most generous society and, in fact, if our society is to survive at all.

We cannot continue on our present course of unrestrained spending and festering public debt. We cannot risk the social disorder and economic upheaval that it has inflicted on other nations.

Mr. Chairman, even if this amendment is adopted by both Houses of Congress, it will not become law unless the people are ready to accept such a restraint. I believe they are. I believe the American people are ready to say to Congress and their Government, "No more."

And in that connection, Mr. Chairman, I am pleased that the Southern Governors' Conference meeting in Florida last week unanimously approved a resolution for the end of deficit financing, and I ask that be inserted in the record at this point.

Mr. Chairman, that concludes my statement.

Senator FONG. Thank you, Senator Talmadge, for your presence here and your statement on this subject.

The resolution of the Southern Governors' Conference and a copy of Senate Joint Resolution 93 will be included in the record.

[The document referred to is as follows:]

STATEMENT OF SENATOR HERMAN E. TALMADGE OF GEORGIA

(Statement of U.S. Senator Herman E. Talmadge before the Judiciary Committee's Subcommittee on Constitutional Amendments, in support of Senate Joint Resolution 93, a proposed amendment to the Constitution to require a balanced federal budget, except in cases of national emergency declared by Congress, Tuesday, September 23, 1975)

Mr. Chairman, I appreciate this opportunity to testify in behalf of my proposed amendment to the Constitution of the United States to require a balanced federal budget, except in times of national emergency declared by the Congress.

First of all, I want to state that I am fully aware of the severity of this proposal. It is drastic. It is strong medicine. But I submit that it is the required antidote for an ailing economy which, like a cancer, makes our nation weaker and weaker every year.

Secondly, the intent of my proposed amendment is very plain. It would impose a strict discipline on the Congress of the United States to stop spending the nation into chaos.

It would bind Congress from its own extravagant mischief.

It would be binding on the Administration and the thousands of faceless bureaucrats who play so free and easy with the taxpayers' money.

It would serve notice on the President and departments or agencies that when they want some new spending authority, they must send it up to the Hill along with an indication of how it will be paid for—in the current fiscal year.

Furthermore, my amendment would be binding on the people to be prepared to pay for what they demand and receive. People must stop demanding of the government more than can be delivered. They must be made to realize that there is no such thing as a free ride on the largesse of the federal Treasury.

It is the people's money when the government takes it away from them in taxes. It is still the people's money when the government spends it . . . and then squanders tens of billions of dollars more in deficits each year . . . and then imposes a heavier burden still on the workers of this country—either through taxes that border on outright confiscation, or through the tax of inflation.

There is no tax more cruel. Inflation ravages the wage earner and robs him of his labor. It devastates helpless widows, the disabled, aged retired persons, and others in similar straits who must live on fixed incomes. It makes Social Security and retirement benefits a mockery.

Moreover, with the proliferation of generous, tax-free public assistance programs, and the inflationary raid on the paychecks of workers, welfare becomes more attractive and profitable in many instances than a job.

This no doubt will rankle many people who have a tendency to blame Congress and government for all the ills of our country. But the fact remains, and I firmly believe in this principle, the people of the United States will get the kind of government and as much government as they allow.

When enough people demand that the government stop mortgaging their children, and their children's children, and stop threatening to reduce the United States to the twilight of a third- or fourth-rate power, I am convinced there will be a rapid turnaround in federal spending policies.

This is not an attempt to pass the buck to the people. I cannot say Congress is guilty of no more than acquiescing to the pressures and demands of the electorate in devising spending programs that are pleasing to the people but poison to the economic stability.

That is just not so. We are all to blame. Congress is guilty of failing to resist the siren song of spending its way to favor with the American people. Congress must accept responsibility for not only failing to exert leadership to curb the greedy spending appetite, but also for feeding that appetite.

We hear federal deficits referred to as the "Nixon deficit" or the "Johnson deficit." Make no mistake about it, whenever the United States' government spends more money than it takes in, that is a Congressional deficit. Congress has the power to spend. It has the power not to spend.

It is unimportant whether deficits have been incurred under Democratic or Republican Congresses or Administrations. What is important is that these deficits add up to a national debt of $600 billion. What is vital to the security of our nation is that there seems to be no end in sight to deficit spending, unless Congress at long last decides to take the initiative and put the issue before the people.

The people of the purse is so strong and the spending habit so addictive that I believe the only escape is through a mandatory Constitutional restriction. We are fast reaching the point where the choice becomes narrow indeed. I fear that if the United States' government is allowed to pursue its present course, it eventually will be catastrophic for our nation and the rest of the Free World.

Anyone who doubts the potential severity of the situation need only consider the economic impotency of Great Britain and the bankruptcy of New York City. The principal difference between our present plight and that of New York is that the federal government can monetize the debt and prime more cash.

That has been past policy and practice to the extent that the American dollar is based on faith, not gold. And, that faith is shaky in capitals throughout the world.

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"It is clear to me that we have more government than we need, more government than most people want, and certainly more government than we are willing to pay for."

One can go back to the end of World War II to trace the course of deficit spending, but I will not burden the Committee at this time with a statistical recitation of facts and figures which are readily available, and which I know you will get from the staff and other witnesses.

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That's when spending beyond our means really began to gain momentum. That's when we started a 10-year economic slide. It's been downhill ever since. The question now becomes one of national security. Are we going to keep sliding uncontrollably until we go off the precipice into national bankruptcy or worse?

We recall the Revenue Act of 1964, when Congress enacted a $12 billion reduction in personal and corporate income taxes. Along with that tax cut there was supposed to be a Congressional and Presidential commitment to put a brake on federal spending.

Unfortunately, we almost immediately went off in the opposite direction.

Congress paid no attention to the escalating cost of the war in Vietnam. It blithely proceeded to indulge the nation in a "guns and butter" economy. It was the advent of the so-called "Great Society." The Congressional pastime of throwing money at problems to make them go away became a national sport.

Since that time we have been plagued by deficits totaling almost $170 billion—and that's not taking into account the projected $60 or $70 billion deficit for the current fiscal year.

The wholesale price index has leaped by more than 60 per cent. The consumer price index has increased by more than 50 per cent. The purchasing power of the dollar has fallen by more than a third.

Just as rampant inflation is the offspring of irresponsible government spending, recession is spawned by inflation. We see that in operation now. We see increased federal spending now to cure recessionary illnesses brought about by inflationary spending in the past year.

This new spending and the tax cuts will saddle government with the largest deficit for FY 1976 in the history of our Republic. It may temporarily reverse recession. But it also threatens to roll up another wave of inflation, worse than ever before, which in turn can sink us into another recession.

According to Secretary Simon, government borrowing in this fiscal year will total 80 per cent of the capital market. That creates tight money, drives interest rates sky-high, denies private industry of vitally needed investment capital, and depresses the housing and automobile industries and virtually all private enterprise which is the wellspring of our economy.

We have a right to ask, the American people have a right to ask, where will it end? If we do not have the good sense to learn from the repeated mistakes of the past, then the future of our country is bleak indeed.

It is time to install machinery in the government that will compel balanced budgets, unless an emergency declared by Congress dictates otherwise. We can reduce expenditures to bring them in line with revenue. We can increase taxes to cover expenditures. Or we can combine the two approaches.

Balancing the federal budget is absolutely essential if we are to continue as the most powerful, the most wealthy, and the most generous society and, in fact, if our society is to survive at all.

We cannot continue on our present course of unrestrained spending and festering public debt. We cannot risk the social disorder and economic upheaval that it has inflicted on other nations.

Mr. Chairman, even if this amendment is adopted by both Houses of Congress, it will not become law unless the people are ready to accept such a restraint.

I believe they are.

I believe the American people are ready to say to Congress and their government: no more.

Resolution of Federal Fiscal Integrity—As Adopted

The southern Governors express unified and deep concern over the adverse economic impact of both the ever-growing size of the Federal Budget and this nation's chronic pattern of deficit spending.

It has become increasingly clear to all that:

> First . . . large, growing, and continual deficits not only encourage inflation, but are one of the major causes of inflation.
>
> Second . . . due to the very size of Federal government spending, there are insufficient capital resources remaining in the private sector to insure creation of an adequate number of jobs and increase the productive capacity of our nation.

We endorse the concept of a federal constitutional amendment requiring a balancing of the federal budget within a specific multi-year period, providing for a temporary suspension during war or national economic emergency, with such

temporary deficit to be repaid within a period of 20 years, and providing for the granting of standing to any state to bring suit to secure compliance with the amendment.

We also recognize that the states must bear part of the responsibility for creating pressures resulting in excessive federal spending, and we pledge our best efforts to support the spirit of this amendment by restraining our own demands for federal spending.

[From the Congressional Record, Oct. 21, 1975]

HEARINGS BEFORE THE SUBCOMMITTEE ON CONSTITUTIONAL AMENDMENTS OF THE SENATE JUDICIARY COMMITTEE ON SENATE RESOLUTIONS PROPOSED A CONSTITUTIONAL AMENDMENT TO REQUIRE A BALANCED FEDERAL BUDGET

Mr. THURMOND. Mr. President, on October 7, I had the pleasure of chairing hearings before the Subcommittee on Constitutional Amendments on Senate Joint Resolution 55 and Senate Joint Resolution 93, resolutions proposing a constitutional amendment to require a balanced Federal budget. The testimony given before the committee was very impressive, and it was supportive of my conviction that Congress needs to take action now to put the Federal Government on a pay as you go basis before it is too late.

Members of Congress who have persisted in establishing massive Federal programs without regard to their cost must accept responsibilty for putting our Nation so deeply in debt. The attitude that has prevailed in Congress in recent years, that problems can be solved if enough money is spent on them, has put this Nation on the verge of bankruptcy. We cannot spend our way into Utopia. Our citizens are demanding a reassessment of this approach.

A constitutional amendment requiring a balanced budget will provide a means to restore stability and strength to our Nation's economy. I think it appropriate as we approach our Bicentennial year of 1976 that we establish as a national goal a balanced Federal budget by at least 1980. We can and must deal with the fiscal irresponsibility that has plagued our great Nation in recent years.

Mr. President, in order that my colleagues may share some of the excellent testimony the Subcommittee on Constitutional Amendments received on these proposed constitutional amendments, I shall ask unanimous consent that a number of the statements made by witnesses appearing before the subcommittee be printed in their entirety in the Record.

The first statement is that of Roger A. Freeman, Senior Fellow Emeritus, Hoover Institution on War, Revolution and Peace, Stanford University. I might draw attention to Mr. Freeman's chart comparing Federal expenditures in 1952 with those on 1972. The figures in the chart point out a fact to which I have referred on the floor of the Senate on many occassions—that increased Federal spending and deficits have resulted, not from military expenditures, but from massive social programs. Expenditures for domestic services, which include health, education, and welfare, increased a whopping 962 percent from 1952 to 1972. National defense expenditures for the same period increased only 68 percent.

Mr. E. J. Faulkner, president of Woodmen Accident and Life Company, Lincoln, Nebr., also made a fine statement.

I am especially pleased and proud of the most impressive testimony given by the Honorable Grady L. Patterson, Jr., treasurer of the State of South Carolina before the subcommittee. My home State of Carolina has a constitutional provision requiring a balanced budget on the State government level. In my opinion, this provision has been primarily responsible for the State's triple AAA bond rating, distinction shared only by 12 States. Mr. Patterson was accompanied by a group of distinguished leaders from my State representing a variety of occupations and professions who submitted statements for the record. These gentlemen were Mr. Edgar L. McGowan, Commissioner of Labor for the State of South Carolina; Mr. W. W. Johnson, president of Bankers Trust of South Carolina and Mr. Ben R. Morris, co-publisher of the State and the Columbia Record newspapers, Columbia, S.C., both representing the Palmetto Business Forum; and Dr. Neal Thigpen, chairman of the Department of Political Science, Francis Marion College, Florence, S.C.

Mr. President, I ask unanimous consent that the statements referred to be printed in the RECORD.

There being no objection, the statements were ordered to be printed in the RECORD, as follows:

STATEMENT OF ROGER A. FREEMAN ON BALANCING THE BUDGET, OCTOBER 7, 1975

(NOTE.—Any opinions I may express are my own and should not be attributed to any organization with which I am or was connected.)

Many years ago the citizens of most states placed strict constitutional restrictions on the ability of their elected officials—governors and legislators—to incur debt on behalf of their states. As a rule now, the state's credit can be committed only with the approval of the people themselves, voting at a general or special election on a specific proposal to issue bonds. This has subjected state borrowing to a close scrutiny by the taxpayers and has restrained it. But it has not prevented it nor crippled state fiscal capacity. To wit: state indebtedness has grown by $36 billion over the past ten years.

Federal indebtedness will at the end of the current fiscal year total nearly $300 billion more than it did ten years earlier. This was possible only because there are at this time no constitutional limitations on the incurrence of debt by the Federal Government. Does the extraordinary and unprecedented jump at the Federal level, compared with only a moderate rise at the state level, not suggest that may be the American people put the muzzle on the wrong dog? Does it not further suggest that the time may have come to fashion a muzzle for the dog who seems to need such restraint? The question now is, if you pardon the mixed mataphors and species, how to bell the cat.

Some close observers have expressed the fear that a continuation of current trends in the public debt may lead to Federal bankruptcy. But, there is really no reason to be afraid. The Federal Government cannot go bankrupt because it can always print all the money it needs to meet its obligations and repay its creditors in dollars that are worth but a fraction of the dollars it borrowed many years before. Some may take a dim view of such a method to defraud those who entrusted their savings to the Federal Government. Others will regard this as clever money management.

What is to be feared is not Federal bankruptcy but run-away inflation. Ever-expanding deficit spending and enlarged money supply are bound to produce inflation—as they have done countless times in a devastating manner over the past one thousand years—from China to Latin America, from Persia to France and Germany. And when the money lost most or all of its value, runaway inflation often not only ruined a country economically but led to social unrest, violent upheaval, revolution and even destruction of the society. More than any other single factor it was the German super-inflation of the 1920s which broke the middle class and killed its belief in the justice of the existing social order that brought Hilter to power.

Inflation is not that rapid in the United States—at least not yet. But it's progressive like pregnancy—there is just no such thing as a "little" pregnancy. The Consumers Price Index rose 19 percent between 1955 and 1965 but jumped 70 percent between 1965 and 1975. At that rate, a dollar saved today will lose 93 cents over the next fifty years. Which young person would want to save a dollar to get 7 cents back in his later years?

The danger of run-away inflation in the United States was widely regarded to be minimal or nonexistent during the late 1950s and early 1960s when annual price rises averaged between one and two percent a year. Thus proposals in those years to restrict the Federal debt—advanced by the sponsor of the currently pending SJR 55 Senator Carl T. Curtis, with Senators Styles Bridges, Harry F. Byrd and others—did not gain sufficiently broad support and failed of adoption. The doubling of the Federal debt in recent years has revived the issue and made it more pertinent and urgent than ever. No one has belittled inflation in recent years or derided it as an imaginary, remote or minor danger.

But some of my fellow economists have been and still are saying that budgetary deficits and growth in the Federal debt are not responsible for inflation and are really nothing to worry about. Some even assert that current deficits are not big enough to deal effectively with lagging economic growth and cure unemployment. Some of the facts they cite are: the Federal debt has grown more slowly than the Gross National Product (GNP). It has declined as a percentage of GNP from 49.4% in 1965 to 38.0% (estimated) at the end of the current fiscal year. Federal debt equalled 129 percent of GNP at the end of World War II and the economy did not collapse. Moreover private debt, individual and corporate, not only totals far more than the Federal debt but also has grown by much more.

There are so many things wrong with these statements that it would take sizeable article to disprove them. The most important: the figure commonly shown as Federal debt is only the debt subject to the so-called debt ceiling which excludes huge obligations of the Federal Government. The "independent" debt of Federal agencies (Export-Import Bank, TVA, etc.) totals over $11 billion, the debt of Government-sponsored enterprises (FNMA, Farm Credit Administration, Federal Home Loan Bank Board, etc.) another $88 billion, loans guaranteed by the Federal Government (FHA, Veterans Administration, Farmers Home Administration, GNMA, etc.) $237 billion. But by far the biggest unfunded liabilities of the Federal Government are for Social Security and Civil Service and Railroad retirement, veterans' pensions, etc. which are estimated to total over $3 trillion.

Counting all Federal commitments, the Federal debt is substantially higher than the private debt and has grown faster. What is particularly significant: it was the expansion of the Federal debt and resulting inflation which are largely responsible for the steep growth in the private debt in recent years.

Some of my fellow economists will tell you that Federal deficits may have an inflationary impact during periods of rapid economic expansion when there may be a strain on available resources but that they are decidedly noninflationary at times when the national economy is running substantially below capacity and unemployment is high. That in fact, they say, is a time when large deficits are needed to compensate for the lag in the private economy and to "prime the pump."

The theory of compensatory fiscal policy of the government "leaning against the wind" was developed in the 1930s and reached its widest acceptance in the post-war period. The Government should balance the economy not its budget. The trouble is that in actual practice the fiscal policy of fine-tuning turned out to possess only a one-way flexibility: huge deficits at times of economic slack but no surpluses during periods of rapid growth. The past fifteen years include fourteen years with a deficit, only one, due to special circumstances, with a surplus.

A new theory was developed a few years ago: that the budget should be balanced only on the assumption of full employment. This was called a more sophisticated fiscal policy than actual budget balance. In truth, it is pure sophistry, an alibi attempting to rationalize budgetary deficits in a pseudo-scientific way and make them respectable, a magician's trick to have deficits disappear from vision. "Now you see them, now you don't."

Congress can make or repeal all laws. But it cannot repeal the law of supply and demand. When Congress tried, the "invisible hand" reached out and dealt the economy a devastating blow.

Despite far fetched theories the huge Federal deficits of the late 1960s and of the 1970s were followed by rapid inflation. Then the search began for convenient scapegoats, the venal greed of big corporations and big labor, drought and floods, the Arab oil shield and other cartels and many others. Some of these factors undoubtedly have contributed to inflation. Labor's ability—with governmental support—to exact wage boosts in excess of productivity growth, which raised labor's share from 67.8 percent in 1975 (first half) have pushed up costs and prices—besides driving unemployment to higher levels.

Contrary claims notwithstanding, higher profits have not contributed to inflation—as is evident from the fact that proprietors' and corporate profits dropped from 26.7 percent of National Income in 1955 to 15.8 percent in 1975 (first half). Profits have fallen to a level that is much too low to attract needed capital. This—in conjunction with a perverse tax policy which favors consumption and penalized capital formation—has resulted in a far lower rate of investment in the United States than in other industrial nations. Because job creation requires huge industrial investments—$25,000 to $50,000 per job and more—which at current profit levels are simply not available in sufficient magnitude unemployment climbed and is considerably higher in the United States than in other Western nations.

By its huge claims for money, government has not only driven up the interest rates but increasingly "crowded out" private demands on the capital markets in recent years. The Treasury Department's Bureau of Debt Analysis released some figures earlier this year according to which the Federal Government accounts for 68 percent of the capital markets in the current fiscal year, compared with a mere 20 percent in the fiscal years 1955–59. All government borrowing (Federal,

State, local) will account for 80 percent of the capital markets in FY 1976. This does not necessarily mean that the Federal Government will actually take 68 percent of the available funds and private borrowers get only 20 percent. More likely, the Federal Government will cover a substantial part of its deficits by monetizing it, that is by financing it through the Federal Reserve System and expanding the money supply.

Testifying before the House Budget Committee on September 29, 1975, Treasury Secretary Simons suggested that his warning issued earlier in the year had been born and has now become a reality: unprecedented government borrowing is drawing away funds for housing and business investment thus weakening the economic system. Treasury note sales in September 1975 produced an interest rate of 8.44%, a much higher return than banks or savings institutions can offer. With a budget deficit well over $70 billion in FY 1976 and estimated to run between $35 and $50 billion in FY 1977 prospects for a easing of pressures are bleak.

Corporations of course also seek to borrow funds in the market, in competition with government. Because our laws tax profits in the form of dividends twice but permit the deduction of interest costs, there has long been a tendency toward debt financing by corporations and away from equity financing—a trend that is strengthened by a profits squeeze and the consequently depressed stock market.

It is small wonder that in the squeeze between a tight capital market, higher costs and a punitive tax policy, private industry which produces almost all of the goods and service consumed by the American people or exported, provides most of the jobs and is expected to supply more job opportunities for our still growing population, is unable to create enough job openings. Thus high unemployment by government spending and deficits is simply adding fuel to the fire of inflation and, in the long run self-defeating. Thus we can "enjoy" inflation plus unemployment, now termed "stagflation".

Attempts to control inflation by wage and price controls were found to have a shortlived effect. Such controls can only be temporarily effective in supplementing sound fiscal-monetary policies. They cannot substitute for them. History supplies innumerable examples of rulers who tried to suppress the results of their own expensive policies by imposing price controls. From Assyria's Hammurabi nearly four thousand years ago to Diocletian's edit more than two thousand years later and to numerous more recent control efforts, they have, despite even the most draconic sanctions never been more than a short-lived experiment which though sincerely begun soon led to the disappearance of desired goods, severe shortages, black markets, in some cases rationing, but almost always to economic stagnation and distress.

When government points in various directions in trying to identify and blame a culprit for inflation it acts like a pickpocket who running away from the crowd, points ahead and shouts: "Hold the Thief". The fact remains that only government can create inflation and only government can stop it by keeping budgets and money supply under control. Inflation is largely the result of monetized budget deficits and cannot be arrested without correcting the underlying evil: budgetary deficits.

Why has inflation proven to be so impervious to all attempts to stop it§ Five years ago I tried to explain the reasons and with your permission I would like to quote what I said on that occasion (from the Congressional Record, March 2, 1970, pp. E1485–88 "Why Don't They Stop Inflation?") :

If we conducted an opinion poll among a representative cross section of the American people, asking what their leading grievance is in the domestic policy area, we would today in most places get the answer: soaring prices.

In letters to editors, in radio and TV interviews and on many other occasions, people keep asking, "Why don't they stop inflation?". "They" of course meaning the government. In a rare display of consensus, members of Congress of both political parties have been condemning inflation in vivid tones and demanding that it be ended forthwith. With everybody seemingly opposed to it, we may well wonder "Why don't they stop inflation?" Is there a sinister and clandestine lobby at work which keeps frustrating the will of the people?

It reminds me somewhat of the psychiatrist who when examining his patient inquired: "Are you troubled by improper thoughts?" to which the patient cheerfully replied: "No, I am not. Frankly speaking doctor, I rather enjoy them."

The fact is that most people enjoy their share of inflation, that is their individual slice of the expanded money supply in the form an income, whether from wages or from independent activity, that grows faster than their pro-

ductivity. What they don't like is the consequences of inflation, which is higher prices. It is not the overeating or drinking that we dislike—it is the hangover, the indigestion, the obesity we fear, but too often fear not enough to abstain from drinking or overeating. This looks like a case of being able to resist everything save temptation.

It is a natural and understandable tendency for people to offset the impact of higher prices by boosting their income and, albeit grudgingly spending more-money instead of reducing their demands. It is as if at a football game we were not seeing well enough over the heads of the people in front of us and decided to stand up. We'll see better—temporarily. When the other people also stand up, as most likely they will, we and everybody else will see no better than we did before. More likely, we'll see less. If we then sit down, we'll see nothing. But how do we persuade the other people to sit down, too, so that we all can see at least something, in comfort? As so often it is much easier to get into trouble, than to get out of it, because few are eager to make the sacrifice of being the first to give in. How can we, in a free society, get concerted action by having all sit down at the same time?

FEDERAL EXPENDITURES 1952 AND 1972

	Expenditures (in millions)		Percent increase	Expenditures as a percentage of GNP	
	1952	1972	1952–72	1952	1972
Total expenditures	$71,045	$244,576	244	20.6	21.1
National defense	46,745	78,722	68	13.5	6.8
Domestic services	12,324	130,920	962	3.6	11.3
Education	323	6,551	1,928	.1	.6
Welfare	5,161	77,731	1,406	1.5	6.7
Health	431	14,492	3,262	.1	1.3
Other domestic services	6,409	32,146	402	1.9	2.7
Interest and other	11,976	34,934	191	3.5	3.0
Population of the United States (thousands)	157,553	208,842	33		
GNP (in billions)	$345.5	$1,155.2	234		
Consumer price index (1967 equals 100)	79.5	125.3	58		

Source: National income and products accounts of the U.S. Survey of Current Business, Department of Commerce.

When I made those statements I was serving as a Special Assistant to the President and had to be more circumspect in my utterances than I can be now, after returning to an environment where I enjoy academic freedom. Moreover, I have observed developments closely in the past five years and learned a great deal. A main factor that keeps Federal deficit spending and therefore inflation at a high level is the far better organization and political effectiveness of the forces that are committed to and pressing for increased Federal spending, compared to the feeble efforts and relative impotency of the groups which favor budgetary restraint.

A few months ago the Hoover Institution published a book on which I had been working for several years: "The Growth of American Government: A Morphology of the Welfare State." In that book I described the expansion of governmental activities in the United States in terms of public employment and finances over the 20-year period 1952 to 1972. I would like to summarize here some of my findings as they appear in the cited book.

Federal expenditures multiplied three and a half times between 1952 and 1972, from $71.0 billion to $244.6 billion. That just about paralleled the growth of the national economy. As a percentage of GNP, federal expenditures grew from 20.6% to 21.1%.

The significant change that took place over that 20-year period was not so much in the overall total of Federal spending but in its composition. Outlays for National Defense dropped from 13.5 percent of GNP to 6.8 percent—or about half their former size. They may be estimated below 6 percent of GNP in the current fiscal year. Spending for domestic purposes simultaneously jumped from $12.3 billion to $130.9 billion; as a percentage of GNP they went from 3.6 percent to 11.3 percent. They may be estimated at 14 percent in FY 1976.

To put this in clear perspective: it took 163 years, from 1789 to 1952 for Federal expenditures for domestic purposes to reach a level of $12 billion. In the succeeding twenty years they multiplied more than tenfold, from $12 billion to $131 bil-

lion. In other words, in those two decades Federal spending increased every two years by as much as the total growth in the preceding 163 years. Even with a correction for the lower value of the dollar this still is probably the most spectacular and most significant change in governmental finances and in the nature and concept of American government in the twentieth century.

By far the sharpest increases occurred in health, education, and welfare:

The ominous fact in terms of future trends is that in the three fields which experienced by far the steepest increase in the cited 20-year period, there is strong pressure for even greater expansion. Spending for health, education and welfare by all governments (Federal, state, local) grew 833 percent between 1952 and 1972 while the aggregate of all other public expenditures increased only 164 percent, which is less than the simultaneous growth of the national economy. Although evidence is at best spotty about positive results from new or expanded Federal programs in the social welfare fields there is now enormous pressure for vast new Federal programs of that type. A national health program has been pending for years, enjoys broad support and could be enacted within the next few years at an annual cost of several dozens of billions of dollars, with a tendency for continued sharp increases judging by the experience of countries which operate such programs.

Guaranteed annual income has been proposed and came close to enactment in 1971 and 1972. It is now again being advanced by powerful forces and would, if approved, add many billions to the annual welfare budget. Federal aid to education at the common school as well as the college level has been pushed by strong national organizations for well over a hundred years and same close to realization on several occasions. With total expenditures for education in the United States now exceeding $100 billion a year, the activation of such programs could add enormous sums to the Federal Budget. Numerous other proposals are being pushed by potent forces—for urban transportation, for general municipal purposes, for environment, for energy development (at $100 billion over the next ten years) which, if approved could balloon the Federal budget further and make a budgetary balance well nigh impossible for many years.

Will Congress be able to resist these spending pressures? Past experience with attempts at fiscal discipline give little cause for optimism. Debt ceilings which first came into use during World War I have proven to be so flexible—being upper once or several times each year in recent times—as to be totally ineffective. The process of raising the debt limit has becomes a frequent ritual that is being carefully observed but is nearly meaningless. Since all expenditures must first be approved by Congress it is virtually useless to go through the process of setting a debt limit that is entirely at the discretion of the Congress.

Budget reform, enacted in 1974 was expected by some to exercise a restricting influence. But it is apparent now that this will not be the case. Committee recommendations suggest far higher spending than proposed by the President—a 21.1 percent boost in the nondefense area versus an 11.9 percent increase in the President's Budget—and a deficit well over $20 billion higher than recommended by the President. The veto that can be placed on Presidential attempts at saving money through impoundment suggests that expenditure savings were not a consideration in shaping this budget reform.

Even if the budget and appropriations committees were austerity minded, there is a serious question of how effective they could be in keeping spending down. Only a minor part of the budget is subject to control through the budgetary and appropriation process. Some of the largest Federal programs are open-ended and expenditures are controlled by the authorizing legislation, thus virtually exempt from the budget review. Nearly three-fourths of all budget outlays in FY 1975 are labelled "relatively uncontrollable", the percentage having gone up from 59.3 percent of the total budget in FY 1967 to 73.5 percent in FY 1975. The significant fact is that while two-thirds of the defense outlays are designated "controllable" only 12 percent of the nondefense outlays, mostly for domestic services, are reported to be "relatively controllable". As I showed earlier it is the domestic programs that have expanded at an extraordinary rate in recent decades—and 88 percent of them are now "untouchable" by would-be budget cutters. Many benefits are set by law such as social security and retirement pay, medicare, food stamps, veterans benefits, revenue sharing; interest is set by contracts. Public assistance, medicaid, and unemployment assistance are reimbursements to state by formulas. With 67 percent of proposed defense expenditures controllable but only 12 percent of the nondefense items controllable, it is understandable that efforts to cut the budget usually concentrate on defense.

To be sure, all Federal expenditures were authorized by the Congress at some time and with the exception of prior existing obligations and contracts—can be controlled by it through changes in the substantive program legislation. The question is whether Congress is able to constrain expenditures by its own power. The normal restraint at state and local levels is the necessity to either raise taxes or issue bonds to finance new or expanded programs. Boosting taxes is a politically painful and risky process which provides a natural screening for outlays which the taxpayers regard worth their hard earned money. Borrowing, on the state's credit, is subject to a direct veto by the voters. At the Federal level there is no limit to debt financing which is too remote for the average voter to know about—although he may subsequently be painfully affected by the resulting inflation.

Experience with Federal debt ceilings, easily changed by an act of Congress, has proven them to be singularly ineffective. Thus an outside force is needed to enforce the fiscal discipline which Congress itself cannot exercise. Only the Constitution can provide such outside discipline.

The early state constitutions contained no debt limitations. But painful experiences with expansive policies in the 1830s and 1840s led to the imposition of restraints in most states. Trends of recent years suggests that some restraints is now needed at the Federal level.

The experience of state and local governments has shown that constitutional debt restrictions can be circumvented in many ways, particularly through revenue bonds and the establishment of special authorities. State courts have proven amazingly lenient in approving the "special fund doctrine" by which state and local governments have evaded constitutional restrictions. Thus federal legislation would have to be drawn rather carefully to provent a rapid growth in backdoor spending and borrowing.

There are several ways in which the U.S. Constitution could restrain the Congress from expanding Federal indebtedness. It could require—as most state constitutions do—the new obligations or an increase in obligations must be approved by the voters themselves. In the age of rapid communications and electronic technology the holding of a national referendum would be no major obstacle. Nor would the cost be large when related to the magnitude of the amounts and the importance of the substance involved.

Switzerland has long been conducting national referendums on major controversial issues and Great Britain did so earlier this year. Over a century of experience with many thousands of state and local debt and tax referendums shows that the voters will understand the alternative and that a review (or veto) can be very healthy. Popular government rests on the premise that the people can understand and judge vital public issues.

Another way of controlling further expansion of the national debt is the method proposed in SJR 55. By computing at the end of each fiscal year the net result of the fiscal operations and imposing a surtax on the income to make up for a deficit seems to be a far better way of bringing the realities of Federal operations home to the taxpayer than to let him find out much later through inflation and higher prices.

There are various other ways toward the same end, some of which are incorporated in proposals introduced in earlier years or now pending. I am not committed to any particular form of debt control but feel that in view of the huge debt expansion in recent years some form of restraint is urgently needed.

Statement of Edwin J. Faulkner

Mr. Chairman, my name is Edwin J. Faulkner, I am president of Woodmen Accident and Life Company, a mutual life and health insurer, whose home office is in Lincoln, Nebraska. I thank the subcommittee for its courtesy in permitting me to testify in support of the enactment of Senate Joint Resolution 55. I wish to emphasize that the testimony that I shall present reflects my personal views as a concerned citizen and as a businessman who for 40 years has had the responsibility of helping people achieve a measure of earned security through private life and health insurance. I do not assert that these views necessarily coincide with those of every insurer.

The business of private life and health insurance, on which some 190 million Americans depend for an important part of their financial security, is one that involves commitments that extend far into the future. People save to provide

themselves and their families protection, through insurance companies, against the financial consequences of living too long, dying too soon, or being disabled. They are willing to save in reliance on the assumption that the dollars that the inusrer promises for future delivery will be dollars whose purchasing power has not been destroyed. Until 1965, this was a sound assumption: but during the past decade, we have witnessed a rapid erosion in the dollar's value because of an abandonment of the principle of Federal fiscal integrity and the practice of a balanced budget.

Since others who have appeared before the subcommittee have documented the terrifying and accelerating increases in Federal deficits reaching the astonishing sum of an estimated $70 billion for fiscal year 1976 on top of a $44 billion deficit in fiscal 1975, I shall not repeat the record. It is well known and, I am sure of great concern to you.

As one one looks back across the years, it is informative of our present economic difficulties to discern how the world's mightiest nation came to its current impasse. In the wake of the Great Depression of the 1930's, the Federal Government in a policy designed to alleviate human distress and regenerate the economy undertook to assume much greater responsibilities for individual welfare and to assert a dominant role in the management of the economy. No matter how humanely intended, these measures were largely ineffective, and it took our involvement in World War II to reestablish a robust domestic economy. However, the seeds of the attitude that the answer to every problem resides in Federal regulation, preemption and largess has been planted. Despite this, in the two decades following World War II, the resurgence of an economy producing for peace proceeded at such a rate that it was able to sustain the increasing finanical burden shouldered by the Federal Government. In 1965, the tragic mistake was made of assuming that our nation could pay the costs of the war in Southeast Asia and vastly expand already massive social welfare programs without compensating increases in taxes. These costs, of course, have been paid and will be paid, not from a forthrightly levied tax which permits the taxpayer to evaluate the programs for which he is paying, but by inflation—the cruelest, most pervasive and regressive tax of all. Since 1965, with the exception of a single year, the Federal Government has operated in the red. It has balanced income and outgo each year by borrowing the shortfall in revenues, thus placing a heavier and heavier mortgage on the nation's future. The interest service alone on that mortgage is now costing us $35 billion annually. The cost to every American of this long-continued Federal fiscal irresponsibility is revealed in the meteoric rise in the costs of living and doing business. According to the U.S. Department of Labor indices (with the year 1967 equal to 100), wholesale prices have risen from 96.6 in 1965 to 176.7 in August 1975. In the same time span, the Consumer Price Index rose from 94.5 to 162.8. Thus, in the decade, wholesale prices were up 83 percent, and consumer prices up 72 percent.

A trained economist might prefer a more elegant and esoteric definition, but to me inflation is simply the condition in which too many dollars are chasing too few goods and services with consequent escalation of prices. In 1913 we established the Federal Reserve System among whose principal responsibilities is regulation and control of the supply of money and credit. For the most part, the Federal Reserve has served well, but its freedom to pursue judicious and desirable courses of action to maintain stable prices has been hamstrung by the necessity of funding the recurrent Federal deficits. The result has been a long-term trend in the expansion of money and credit in excess of the needs of the economy and additions to the burdensome costs of government—all of which is directly responsible for the major inflationary thrust.

Inflation feeds upon itself. There is no universally available means by which it is possible to cope with inflation, and the mere existence of widely-held inflationary expectations exacerbates the problem. For example, from time immemorial, interest, the charge made by lenders for the use of money, has been 3 to 3½ percent plus the rate of inflation then prevailing. As lenders look ahead and see no assurance that inflation will be contained, they seek to preserve their capital by insisting upon higher yields. Far from being a cause of inflation, deplorably high interest rates are a result, just as surely as $4.25 per bushel wheat is a result, not a cause, of inflation. In like vein, when the laboring man demands increases in wages and fringe benefits that have little or no relationship to increases in productivity, he is reacting to inflation realized or expected. In both instances, the effect on the economy is a depressing one.

For several years, the Congress and the American people have been alarmed by the rapid rise in health care costs. Critics who gravitate to easy answers to complex problems accuse the providers of care and blame the system. The fact is that health care costs have zoomed primarily because of the inflation caused by unsound Federal fiscal and monetary policies. For example, 65–70 percent of the cost of providing a patient day of care in a general hospital is the cost of labor. In a labor market where wages reacting to inflation have been increasing from 8 to 12 percent or more a year, hospitals have had to meet the competition and these higher costs are passed through to the patient.

Probably the most pitiful victims of inflation are our older people, widows and orphans, all those who are living on fixed incomes. By their providence and self-denial over a lifetime of saving, these senior citizens accumulated a modest estate which without inflation would have permitted them ot live out their years in dignity and reasonable comfort. But for many, inflation has reduced their lot to little better than one of mere survival. Congress, reacting to the impact of inflation on our principal class of pensioners, Social Security recipients, enacted ad hoc increases in benefits effective in 1965, 1968, 1970, 1971 and 1972. These increases exceeded the increase in living costs during those years. Additionally, in 1972, the Congress incorporated in the Social Security law formulae by which it was expected that future adjustments in the level of benefits and Social Security taxes, triggered by changes in prices and average earnings, would be achieved without further legislation. The first automatic increase became effective this year.

It was my privilege to serve as a member of the Advisory Council on Social Security whose report was filed with the Congress in March of this year. That experience quickened my understanding of how the manner in which price rises have outpaced increases in average earnings poses a serious threat to the solvency of the Social Security System unless the Congress takes timely action to raise Social Security taxes by at least 1 percent of taxable wages and remedies the defects that exist in the so-called automatic benefit adjustment factors.

In the last analysis, I think no one would deny that national prosperity, as well as individual welfare, depend ultimately upon the production of goods and services. A healthy, growing and productive economy is the source of jobs, of profits, tax revenues, national security, and an acceptable standard of living. When our real gross national product falters or stagnates, every segment of our society suffers. It is private enterprise, not government, that is the engine of production. Government can take from one and give to another, but adds nothing to national productivity. Funds siphoned off by government are capital that the economy sorely needs for investment to provide jobs, goods and services. On the average to provide one job in commerce, industry or agriculture, there must be an investment of more than $25,000 in plant and equipment. Today we are told that in order to approach our economic potential, the staggering sum of $4½ trillion must be accumulated and invested in the next ten years. At present, our tax structure penalizes savings, profits and capital accumulation and encourages spending for consumption. Because of this, capital fund-raising is difficult, expensive and, except for the most credit-worthy enterprises, sometimes impossible. The competition of government for such funds has become an added obstacle to raising capital for states, municipalities and private business.

In 1974, the Federal Government took $12 billion out of a total of $180 billion raised from the credit markets. In the second quarter of 1975, Federal credit demands soared to a $93 billion annual rate out of total annual fund-raising of $210 billion. Over the past ten years government spending, including transfer payments, has been expanding at a 9% annual rate, which is more than double the 4% rate for the private economy. The growth of government spending lies at the heart of the strains on the capital market. Since Federal Government will see to it that its capital needs are satisfied first, as these needs burgeon because of recurrent deficits and their inflation sequelae, the private sector is threatened with the inability to raise capital it so badly needs. We have been "consuming our seed corn" for some years by our failure to save and invest enough to maintain and enhance our productive capacity. Unless major steps are taken promptly to arrest preemption of the capital markets by the government, the attrition of the economy will only intensify.

Senate Joint Resolution 55, calling for a constitutional amendment to require balanced Federal budgets except in times of a declared national emergency, proposes a sound and workable way to return the government to a program of fiscal integrity. Its enactment would immediately defuse inflationary expectations, and its operation would lay the foundation on which long-continued stability, progress and prosperity could be achieved. The burdens of the public sector would

be diminished as the private sector would assume its historic role of providing more and better jobs, a greater flow of better goods and services, a higher standard of living, and not, incidentally, a greater flow of tax revenues.

If, to some, the proposal seems objectionable because it would reduce congressional freedom of action, let it be remembered that ours is a government of delegated and reserved powers, a government of checks and balances. The constitution has always contained limitations on what the various branches of government may and may not do. It would seem to me that the Congress should welcome this constitutional bulwark to its determination to govern wisely. We well know of the insistent pressure of special interest groups on every member of the Congress in support of particular projects. Many of these projects are highly desirable, but in their promotion their advocates too frequently are guilty of tunnel vision and are oblivious to the cumulative effect of countless such programs on our government's credit and the economy.

To those who would argue that by reducing the flexibility of fiscal policy we hamper management of the economy, I would respond that by stabilizing one of the current variables with which the managers must contend, we free the Federal Reserve to implement monetary and credit policy, the other variable, in a far more effective manner than has been possible when the Federal Reserve action has been straitjacketed by the necessity of funding government deficits. The Congress is to be commended for taking the first step toward exercising fiscal responsibility by adopting the Congressional Budget and Impoundment Control Act of 1974. Passage of Senate Joint Resolution 55 is clearly the next step which should be taken.

Former Secretary of Health, Education, and Welfare, Caspar W. Weinberger, in his valedictory address before retiring from Federal service last July, commented to the Commonwealth Club of San Francisco that, "My single overriding observation after these years in Washington is of the growing danger of an all-pervasive Federal Government. Unless checked, that growth may take from us our most precious personal freedoms. It also threatens to shatter the foundations of our economic system. When I came to Washington in 1970, the Federal budget outlay stood at $196.6 billion. It is now $358.9 billion, an increase of 83 percent. Apart from its sheer magnitude the most noteworthy thing about this trend is that Federal spending has shifted away from traditional Federal functions such as defense and toward programs that reduce the remaining freedom of individuals and lessen the power of other levels of government. . . . There is an overriding danger inherent in the growth of an American welfare state. The danger simply is that we may undermine our whole economy. If social programs continue growing for the next two decades at the same pace they have in the last two, we will spend more than half of our whole Gross National Product for domestic social programs alone by the year 2000."

I most earnestly urge upon you and your colleagues in the Congress that heroic measures must be undertaken to end recurrent Federal deficits with their inevitable inflationary impact. Unless we face up to this responsibility now, the American dream will be lost forever.

STATEMENT BY GRADY L. PATTERSON, JR., STATE TREASURER OF SOUTH CAROLINA

Mr. Chairman and Gentlemen of the Committee, I want to take this opportunity to thank you for allowing us to appear before this distinguished Committee and express our views in support of a Constitution Amendment requiring the Federal Government to operate on a balanced budget, S.J. Res. 55.

Let me say from the outset that South Carolina has operated for decades and generations within the discipline of a balanced budget. Our Constitution directs it; statutes require it; rules of our House of Representatives dictate it; and just plain reason and logic demand it. It is indeed frightening and alarming that the Federal Government has not exercised the same discipline in managing its fiscal affairs. And, frankly, I do not believe our free enterprise and free markets system can long survive the excesses of the lack of fiscal discipline.

Article X, Section 2, of the Constitution of South Carolina 1895, provides:

"§ 2. *Expenses of State government.*—The General Assembly shall provide for an annual tax sufficient to defray the estimated expenses of the State for each year, and whenever it shall happen that the ordinary expenses of the State for any year shall exceed the income of the State for such year the General Assembly shall provide for levying a tax for the ensuing year sufficient, with other sources of income, to pay the deficiency of the preceding year together with the estimated expenses of the ensuing year."

Thus, you will observe that this South Carolina Constitutional requirement is not too unlike your own proposed Amendment to the United States Constitution. This requirement has worked for us, and I know beyond any doubt that it will work for this nation.

Our statutes require that revenue match expenditures each year and that we maintain a constant vigil on the revenue to ensure a balanced budget. Section 107 of our Annual Appropriations Act provides:

"SECTION 107. Any appropriations made herein or by special act now on hereafter, are hereby declared to be maximum, conditional and proportionate, the purpose being to make them payable in full in the amount named herein, if necessary, but only in the event the aggregate revenues available during the period for which the appropriation is made are sufficient to pay them in full. The (South Carolina) State Budget and Control Board shall have full power and authority to survey the progress of the collection of revenue and the expenditure of funds by all departments and institutions, and is hereby authorized and directed to make such reductions of appropriations as may be necessary to prevent a deficit; . . . (1975–76 Appropriations Act for State of South Carolina.)"

You will recall that during the fiscal year 1970–71 we experienced a slight downturn in the economy. As a result of closely monitoring the progress of revenue collections, the State Budget and Control Board concluded that expenditures would exceed revenue collections. This provision of law provided the authority for the Budget and Control Board to cut the fiscal year appropriations by 6% in November of 1970. South Carolina ended the fiscal year on June 30, 1971, with a $5 million surplus as a result of this timely action by the Budget and Control Board.

You may be interested in knowing how we went about effecting this reduction in expenditures. We called each agency and department head in and suggested he tell us how he could best cut his budget by 6%. Almost without exception, there was full cooperation throughout State Government and no program really suffered. In fact, it was a very healthy exercise in financial management and fiscal responsibility. I might add, this action did not go unnoticed by the rating services and the money markets throughout the country.

We have another Rule that relates to a balanced budget in our state. Rule No. 5.3 of the House of Representatives, State of South Carolina, provides:

"After passage on second reading and before its consideration on third reading, every General Appropriation Bill and every Supplemental Appropriation Bill shall have attached thereto a certificate from the Comptroller General that the total of the appropriations therein provided is not in excess of the estimated total revenue of the State for such purposes, including that revenue which may be provided in the Bill, or in any other bill previously passed by the House for the fiscal year to which the Bill is applicable, and if the Comptroller General cannot give such certificate, the Speaker shall order the Bill recommitted to the Ways and Means Committee. After the report of the Committee, any amendment which it shall recommend may be adopted."

Consequently, as the annual Appropriations Act moves through the General Assembly, another safeguard is erected to require a balanced budget.

Thus, it can be seen that South Carolinians not only believe in a balanced budget; but it is a philosophy with us, and we are dedicated to the fiscal discipline of living within our means.

As a result of keeping our financial house in order, South Carolina enjoys the cherished and coveted AAA credit rating. Our state is one of about a dozen states that is so recognized. We can borrow money as cheap as or cheaper than any other state in the union. Our bonds sell as well as or better than those from any state in the nation. Such fiscal discipline has saved our taxpayers millions of dollars in interest costs in the financing of our capital programs.

The point is fiscal responsibility has worked for us and it can and will work for the Federal Government.

What are the alternatives? We do not have to go to the history books for the answers.—The answers are on the front pages of the newspapers every day.—New York City, Urban Development Corporation, Social Security Trust Fund, and a number of other cities and states, as well as the staggering deficit the Federal Government is experiencing this year and next year.

The alternative to sound fiscal policies and good debt management is fiscal disarray and financial chaos.

In addition to the highly visible fiscal affairs of New York City, which are in shambles and chaos, many other cities and some states are experiencing similar difficulties. New York City has one financial crisis after another, almost on an hourly, daily and weekly basis.

Of even greater significance is the grossly inadequate funding by Congress of the Social Security Trust Fund to meet the ever-increasing benefit payments voted by Congress. Within the next few years, by 1980 or sooner, it is estimated the Trust Fund will be depleted and the Congress will be required to make annual appropriations from the annual operating revenues to meet benefit payments. Unless Congress takes action immediately to provide funding for the Social Security Program in the years ahead, the New York City debacle will look like peanuts by comparison.

I think the lesson to be drawn is that neither New York City nor the Social Security Trust Fund got into fiscal trouble last week or last year, but did so as a result of fiscal irresponsibility over a long period of years.

The point is these are examples of fiscal excesses and lack of fiscal discipline. We must keep our financial house in order, and we must live within our means.

I think there is a crying out for fiscal responsibility all over the nation. I think people all over this country long for a return to fiscal sanity at the national level, and all levels of government for that matter. People are sick and tired of deficits, wasteful expenditures, and the lack of fiscal discipline. Citizens must exercise self-discipline and keep their own checkbooks balanced.—Why should they expect less of their government?

Balancing the Federal Budget will not be easy; it will not be painless. It will probably take four to six years to move to a balanced budget. I think we should establish a national goal to attain a balanced budget by 1980 or 1981. You know, when President Kennedy became President in 1961 we established a national goal of putting a man on the moon and returning him safely in the decade of the 60's. We attained that national goal. Why can't we dedicate ourselves to the necessary discipline of achieving a balanced budget by 1981? I think we can, and I think we must do it.

We must turn away from extravagance in the use of all of our resources. We have been brought to the painful and costly realization in the last two or three years that our resources are not limitless. The energy problem, shortage in certain food items, and even an alleged shortage of canning tops are some examples. We should adopt an attitude of individual as well as collective austerity and lower our level of expectation. We should rededicate ourselves to making work honorable and respectable. We should stress the dignity of work and the respect and self-pride in performing a day's work for a day's pay. The key to such attitudes is the approach we take as individuals. The responsibilty rests with each of us. Government at all levels cannot and will not respond without the urge and demand from individuals.

I am reminded of a statement made more than 200 years ago attributed to a British historian, Professor Alexander Tytler:

"A democracy cannot exist as a permanent form of government. It can only exist until the voters discover that they can vote themselves largess from the public treasury. From that moment on, the majority always votes for the candidate promising the most benefits from the public treasury with the result that a democracy always collapses over loose fiscal policy, always followed by a dictatorship. The average age of the world's greatest civilizations has been 200 years.

On the eve of the celebration of our 200th anniversary as the greatest experiment in democracy, this is indeed a sobering observation. We see all about us shambles of financial affairs caused by "loose fiscal policy." I think we stand at a crossroads and the destiny of the nation hangs in the balance. We cannot ignore the compelling requirement to return to fiscal sanity and fiscal discipline. The question is can we muster the will and resolve as a nation to bring about a renewal and rebirth of values that require living within our means? We really have no choice—we can and we must do it.

In conclusion, we support your effort in proposing an Amendment to the United States Constitution requiring the Federal Government to operate on a balanced budget. We can and we must live within our means; we can and we must keep our financial house in order; and by so doing, we can and we must continue to improve the quality of life for all our citizens.

Testimony of Edgar Leon McGowan

Mr. Chairman, members of the Committee, I am Edgar Leon McGowan, Commissioner of Labor for the State of South Carolina. I wish to thank you for this opportunity to appear in support of S.J. Resolution 55. For the past thirty (30) years I have served South Carolina either as a college professor, Democratic Party official, unofficial advisor to several governors and for the past four

and one-half ($4\frac{1}{2}$) years as Commissioner of Labor. South Carolina does not have a Department of Commerce; therefore, the Department of Labor may serve both management and labor. As a result, I am exposed to both viewpoints.

In addition to being the Commissioner of Labor, I was for two (2) year a Director and am now the Vice-President of the International Association of Governmental Labor Officials. This organization's membership includes all forty-nine (49) Commissioners or Directors of the states Departments of Labor (Mississippi does not have a State Department of Labor), the District of Columbia, three (3) of the possessions or protectorates and all ten (10) ministers of labour from the Canadian provinces.

In these dual positions I travel throughout the United States extensively and during these travels I meet and talk with many people. I can assure each of you that the American population is frustrated and disturbed in regards to the direction being taken by governments at all levels. We hear, see and read everyday in the news media the frustrations of the radical elements of this country; however, in talking to the responsible people of this country I find that the radical groups are not the only ones who are frustrated and concerned. Of course, responsible people don't buy a handgun and try to kill the President; therefore, their frustrations are not publicized or reported by the news media, but I find that their frustrations and concerns are just as real as those of the radical groups.

There are many reasons for the frustrations of the responsible Americans of today. Inflation, unemployment, high taxes, and overregulation by government at all levels seem to be the major reasons for these frustrations.

I am well aware, as you are, that throughout the two-hundred (200) years of our existence, Americans have suffered many frustrations. However, the problems of the past are cited today by those who wish to justify their own irresponsible actions and do not justify the public officials doing nothing about today's problems. America has enjoyed periods of time when the people were united in pride of their country. It has suffered through other periods of time when its people were divided by their frustrations. We reached the height of pride in 1945 when America was victorious in World War II. Since 1945 we in public life have done many things to destroy this feeling among our people. Even those who have joined us in the public sector during the past thirty (30) years have contributed to "business as usual" and all too often "business as usual" has been bigger government at all levels and in many cases irresponsible leadership. It is time we in the public sector began rebuilding confidence in government. The first step towards rebuilding confidence in government could very well be the adoption of this resolution.

Every American knows that they must live within their income or they wind up in a financial bind in a hurry. This is to average American is being financially responsible. They do not understand how the United States Government can operate year after year in or out of war with expenses exceeding income when they have to live within their income. It is especially true since it is the responsible American's tax dollar the government is spending. They are well aware of the fact that soon they will have to pay more taxes to pay off the national debt we are now incurring.

The State of South Carolina has a constitution requirement as follows: to wit:

"The General Assembly shall provide for an annual tax sufficient to defray the estimated expenses of the State for each year, and whenever it shall happen that the ordinary expenses of the State for any year shall exceed the income of State for such year the General Assembly shall provide for levying a tax for the ensuing year sufficient, with other sources of income, to pay the deficiency of the preceding year together with the estimated expenses of the ensuing year."

We even go farther than the constitution requirement. If during an operating year our actual revenues do not reach estimated revenues, then the agency heads are ordered by the Governor and the Budget and Control Board to cut back expenditures during the current year. As a result, South Carolina unlike many other states is in a sound financial position. Of course, during the current national economic crisis South Carolina's actual revenues are below the estimated revenues and we agency heads are expecting a cut back order any day. However, it has been my experience that each Department or Agency in the State of South Carolina has some surplus funds in their budget. If I am ordered to curtail expenditures by as much as ten percent this year in the Department of Labor the citizens will not suffer from lack of service from the Department because they will continue to receive the same services they are now receiving. Each year since I became Commissioner of Labor I have lapsed between ten and twenty-five percent of the Department's budget at the end

of the year because the need did not materialize which justified the expenditure. These savings, however, did not curtail any of the services rendered by the Department. Each year when the news media reports the amount of the budget which I have lapsed, I receive commendable praise from all sectors of South Carolina citizens for responsible handling of the Department's fiscal affairs.

As Commissioner of Labor I am continuously dealing with the United States Department of Labor. It has been my experience that the United States Department of Labor is one of the most responsible agencies of the Federal Government. However, there are programs in the United States Department of Labor which are over-funded and others which are under-funded. However, from what I have seen there is a tendency even in that Department to overspend for the service rendered. I am aware that there are many pressures imposed upon Congress to spend money for various programs; however, I am also aware that these pressures are of a self-interest nature and not necessarily what is best for our people. Today labor wants our unemployment problems cured by hiring in the public sector. Such hiring would merely contribute to inflation and at best be only a temporary remedy. I feel that excessive government spending plus overregulation of the businessman is one reason for the inflation spiral that we have been in for the past thirty (30) years. In the past ten (10) years expenditures in the Federal Government alone has *tripled* and this is also true at the state and local level.

Our democratic form of government is the best form of government devised by man. The only weakness is when the public officials, both elected and appointed, fail to recognize what the electorate really want from their government. I can assure you that the vast majority of America today wants responsible fiscal policies at the local, state and national level, and I feel that S.J. Resolution 55 is the first step in this direction and the first step to rebuilding public confidence in Government.

The alternative to rebuilding this public confidence could very well be all of us in public office being conspicuous by our absence after the next couple of elections. We have already seen some of this in elections in the past few years such as Governor Wallace's vote in the last presidential election; Governor Edwards, virtually an unknown oral surgeon, defeating a well known retired congressman in our last gubernatorial election in South Carolina; and the recent special election just this past month in the State of New Hampshire.

I strongly feel that "business as usual" isn't going to soothe the frustrations of the responsible Americans. An adoption of S.J. Resolution 55 is the first step to returning to responsible government.

Thank you again for giving me this opportunity to express one public official's opinion on this critical issue.

Statement of Mr. W. W. Johnson and Mr. Ben Morris Representing the Palmetto Business Forum

The Palmetto Business Forum,
Columbus, S.C., October 7, 1975.

The Subcommittee on Constitutional Amendments of the Committee on the Judiciary,
The Senate of the United States, Washington, D.C.

Gentlemen: This letter is being written on behalf of the Palmetto Business Forum, a group of South Carolina business leaders concerned about the growing role of government in our society, and committed to the strengthening of the free enterprise system, and the perpetuation of individual freedoms. The Forum represents a wide diversity of business interests, and has members throughout South Carolina. We are writing in reference to Senate Joint Resolution No. 55 proposing an amendment to the United States Constitution requiring a balanced federal budget each year.

The Forum wishes to commend The Honorable Carl Curtis and the other Senators who introduced the resolution—including and we should like to convey our support of the resolution. It has long been the position of the business community in South Carolina that uncontrolled governmental growth and spending represented a serious threat to the economic well-being of the nation. Recently, of course, that fear has been borne out by a dangerously accelerating inflationary spiral nurtured to a great extent by what we consider to be irresponsible governmental spending and fiscal policies. The disclosure in Senator Curtis's statement of April 17 to the Senate that fifteen cents of every dollar spent in Washington

next year will be borrowed constitutes an alarming development and a sad commentary on the financial management of our government. The fact is that the forces of bureaucratic expansion and deficit spending which have been set into motion in the last quarter century must be retarded if our economy is to withstand this most recent—and most serious—onslaught. It is our belief that the constitutional amendment proposed by S.J. Resolution 55 provides an appropriate and effective means by which such a purpose could be achieved. As our State Treasurer, the Honorable Grady L. Patterson, Jr., testified today before the Subcommittee on Constitutional Amendments of the Senate Judiciary Committee, the State of South Carolina operates under requirements of its state constitution that its annual budget be balanced. It has been an undisputed part of the fiscal policy and operation of this state since 1895, and has sustained us through years of lean and plenty in such a fashion that we have been able to maintain an AAA bond rating on Wall Street. Our experience, and that of other states, would seem to provide an excellent precedent for the concept of constitutionally mandated fiscal responsibility.

Our purpose is not to take issue with the individual programs and policies which have proliferated so rapidly during this period of unprecedented governmental expansion. There are those of us who do have very strong philosophical reservations about the wisdom of many of the programs. But, for whatever well-intended purpose these programs may have originally been established, there appears to be clearcut evidence that their recent management and administration have led directly to enormous new financial burdens for government, and a subsequent undermining of the country's economic stability.

The difficult economic experiences of the last two years, we believe, have matured the American people and moderated their expectations toward governmental service. It is our feeling that the public is looking for leaders who will be willing to acknowledge that the time has come for sacrifice, and who are willing to provide leadership in that regard. Obviously, we do not live in a world of infinite resources, financial or natural. The longer it takes for leadership in the public and private sector to acknowledge that fact and come to grips with it the more grave our present economic crisis will become. While we believe that the proposed amendment is long overdue, we welcome it as being particularly timely today, and as being sensitive to the new public attitudes and awareness. It is unfortunate that it often requires crisis conditions to enact measures which were needed even without the crisis. But if today's economic problems lead to a more responsible management of fiscal affairs by the federal government, then the crisis will not have been an entirely negative experience.

We firmly believe that the federal government should not only conform to responsible fiscal practices, it should set an example of leadership. Absence of that leadership in recent years, we fear, has led to an overall breakdown among Americans in their understanding and respect for financial prudence and discipline. As the unfortunate experience of New York City has so graphically demonstrated, the day of reckoning does arrive. We fear that unless action is taken to curb irresponsible fiscal practices of the federal government, our entire nation is heading for a similar day of reckoning. By refusing to face that issue, we are only passing along the burden and the responsibility until a later day or to a later generation. It is our belief that we should confront it today, and we should do so in a reasonable and rational manner. The proposed amendment appears to be such an instrument. It makes no judgment upon the merits of the programs funded by the federal government. It simply provides a mechanism by which government can practice what we believe is a rather basic premise of our economic system; namely, that we live within our means and spend no more than we earn. Not only do we enthusiastically support and endorse the proposed constitutional amendment, we are confident that the overwhelming majority of Americans are ready for this kind of return to sound and responsible government at the federal level.

W. W. Johnson,
Ben R. Morris.

Testimony of Dr. Neal D. Thigpen

My purpose in appearing here today is to speak in support of Senate Joint Resolution 55 providing for an amendment to the U.S. Constitution requiring an annually balanced Federal Budget. I do so not as a political scientist and member of the academic community, but rather as an average citizen who has become alarmed at the ever increasing level of Federal spending and huge

Federal Budget deficits. In my opinion, it is no longer a question of should we have a balanced budget, but how soon and by what means can we accomplish this objective. My reluctant conclusion is that our best hope rests in the addition to the Constitution of an amendment that will limit the Federal Government to spending no more than it takes in. I say my conclusion was reached reluctantly, because I initially had some reservations as to the advisability of placing this type of requirement into the Constitution. I fear, however, that there is really no other means to compel the Federal Government to operate on a pay-as-you-go basis. For without a balanced budget, and the fiscal restraints it entails, this nation is doomed to continuing inflation, high unemployment, high interest rates, more business failures, and possibly even a depression. At some point, we have to pay the price for our extravagances and every year we delay it means the final price will be dearer and more tragic for millions of Americans.

For more than 150 years we practiced frugality as a nation, built a great individual economy and supported it with a sound dollar. It took 186 years for this country to reach a $100-billion budget. It took only another 9 years, however, to reach a $200-billion budget. It took 3 more years—that is fiscal 1974—to reach $300-billion. In the current fiscal year, the Federal Government is spending money at better than a billion dollars a day. It now appears that we will come close to the $400-billion mark in fiscal 1976.

To place these phenomenal spending increases in a slightly different timeframe, as recently as 1961 the outlay of the Federal Government was a comparatively modest $94-billion. For fiscal 1975, it is scheduled to come in at a prodigious $350-billion. This means the level of Federal spending has quadrupled in about a decade and a half, with new increases suggested every day. We have been creating so many new programs and raising government benefits so rapidly that it almost seems as though the Federal Budget, with its enormous size and continual growth, has taken on a life of its own.

In addition, with the President's budget for fiscal 1976, a new and very dangerous element has been introduced into the Federal budgetary process—runaway deficit spending. At the beginning of this year, Mr. Ford proposed a 1976 budget with a deficit of $51.9-billion. Several months later the President drew the line at $60-billion. As of last month, the prospective deficit stood at $68.8-billion. It seems entirely probable that before Congress adopts its last spending bill, the deficit will rise to $75-billion. After a period of 44 years during which we have had 37 deficits, we will wind up fiscal 1976 with a deficits the likes of which this country has not experienced in the last 30 years. Deficits on this scale befell us only in the three World War II years of 1943, 1944, and 1945 (see Table I).

TABLE I.—*Federal Government surplus or deficit, 1932–76*

[In billions of dollars]

In year ending June 30:		In year ending June 30—Continued:	
1932, deficit	$2.7	1955, deficit	4.2
1933, deficit	2.6	1956, surplus	1.6
1934, deficit	3.6	1957, surplus	1.6
1935, deficit	2.8	1958, deficit	2.8
1936, deficit	4.4	1959, deficit	12.4
1937, deficit	2.8	1960, surplus	1.2
1938, deficit	1.2	1961, deficit	3.9
1939, deficit	3.9	1962, deficit	7.1
1940, deficit	3.9	1963, deficit	4.8
1941, deficit	6.2	1964, deficit	5.9
1942, deficit	21.5	1965, deficit	1.6
1943, deficit	57.4	1966, deficit	3.8
1944, deficit	51.4	1967, deficit	8.7
1945, deficit	53.9	1968, deficit	25.2
1946, deficit	20.7	1969, surplus	3.2
1947, surplus	.8	1970, deficit	2.8
1948, surplus	8.4	1971, deficit	23.0
1949, deficit	1.8	1972, deficit	23.2
1950, deficit	3.1	1973, deficit	14.3
1951, surplus	3.5	1974, deficit	3.5
1952, deficit	4.0	1975, deficit [1]	35.0
1953, deficit	9.4	1976, deficit [1]	52.0
1954, deficit	3.1		

[1] Preliminary estimate.

The huge deficits of 1975 and 1976 will not only pave the way for future inflation, but they threaten the capital markets where business must secure the necessary financing to survive and/or expand. By its own estimates, the Treasury, during this calendar year, 1975, will go into the capital markets for almost $70-billion in net new financing. This means that this year the Federal Government will be raising more net new money in the capital markets than raised by all borrowers public and private, last year or any other year in the past. In fiscal years 1955 through 1959, the Federal Budget accounted for 20 per cent of net funds raised in the capital markets; between 1970 and 1974, the Federal share grew to 45 per cent. With the estimated budget deficit for fiscal year 1976, total Federal borrowing could well account for as much as 65 per cent of the capital markets. Add to this the anticipated borrowing by state and local governments, and total government borrowing during the coming fiscal year might be 80 per cent of the capital markets. This would leave only 20 per cent to private industry in a financial market that has always been the centerpiece of our free enterprise system. If this happens, interest would soar to ever new highs. Businesses, contractors, home purchasers, and so forth, would find it terribly difficult to obtain loans and recession would be the inevitable result, meaning the loss of productivity and jobs.

If you find all of the foregoing appalling, consider the national debt now standing at over $530-billion. Of course, it is the interest payments on the national debt rather than the debt itself which will be the real burden on future generations. Ten years ago, interest on the debt came to $10-billion a year; it is over $35-billion a year. The increase in the national debt has added to the interest burden not only of our grandchildren but of the present generation as well. Interest payments go to private Americans—institutions and individuals—who have invested their money in government securities. To them, the interest is income, not a burden. But for the taxpayers at large, there is no question that interest payments on the national debt are a heavy burden. They stand as ample proof that we must put an end to deficit spending and regain a sense of fiscal integrity.

Prior to the Great Depression the almost unanimously held view was that government budgets, the Federal Budget included, ought to be balanced. Governments were almost universally condemned as irresponsible if expenditures exceeded tax revenues except for accidental reasons. Deficit financing was admitted to be unavoidable during times of war, but in nonwar periods governments were careful to preserve financial integrity, a term which was held to be almost synonymous with the annually balanced budget. The fact that governments were run by politicians was taken as added reason for insisting on fiscal discipline.

During the New Deal, however, deliberately unbalanced budgets and "pump priming" calculated to eliminate unemployment became the order of the day. The notion was that temporary expenditures would set the economy going again and the Federal Government could then step out of the picture. It was widely accepted that the maintenance of full employment was more important than any strict adherence to the "ancient fiscal rule" of a balanced budget.

What no one likes to point out is that deliberate unbalancing of the Federal Budget and expansion of governmental activity during the 1930's never did solve the problem of large-scale unemployment. Yet, the philosophy that it is essential for the government to run a perpetual deficit while Federal expenditures provide employment remains very much with us. Moreover, government programs once regarded as temporary and undertaken in order to prime the pump are still around, and indeed account for ever-growing government outlays. And it is easy to see that the abandonment of the principle of the annually balanced budget has biased decision-making over the years in the direction of deficit financing. Members of Congress will rarely create surpluses since the tax cutters and the expenditure expanders are the pressure groups, not the tax increasers and expenditure cutters.

Does this suggest that the annually balanced budget should be restored to its former place as the ideal of fiscal responsibility? My answer to that is an unequivocal yes. In fact, as I indicated at the outset of my remarks, I would carry things a step further and add to the U.S. Constitution the proposed amendment which is spelled out in Resolution 55. There will be those, of course, who will say that this resolution presently stands very little chance of securing the two-thirds vote in the U.S. House and Senate needed for submission of a proposed constitutional amendment to the American states for ratification. That, unfortunately, is probably an accurate assessment given the political thinking of a majority of

the current members of Congress. It is my hope, however, that the hearings on this measure will force the average citizen to take a closer look at the fiscal activities of the Federal Government and to ask himself if there is not something terribly worrisome about this escalation in spending and enormous budget deficits that drain off needed loan funds for the private sector because of excessive government borrowing. I am confident that the average citizen is going to wonder if the Federal Government can or should constantly spend more than it takes in. And while a precise comparison cannot be made between the Federal Budget and the budget of the average citizen, I think there are enough similarities to convince the average citizen that it is high time we regained control of Federal spending and balanced our nation's budget. I think that the average citizen is going to throw up his hands and say "no more." I think he is going to demand that the Federal Government call a halt.

Still other critics of this proposal will undoubtedly argue that even if a requirement that the Federal Budget be balanced ever became part of the supreme law of the land that that goal would be impossible to achieve. It would be impossible, I am certain they will contend, because three-fourths of the Federal Budget are so-called "uncontrollable" expenditures, in which substantial cuts cannot be made. My answer to that has been, and remains, that the budget is uncontrollable because the Congress has made it so. Congress "holds the purse strings," and whatever the Congress has done, it has the power to undo. Congress in cooperation with the Executive Branch would simply have to make the hard decisions that would be necessary in order to cut back on government spending to be in compliance with a constitutional provision of the type embodied in Resolution 55. To reduce Federal outlays now, or in the next year or so would cause some dislocations in our economy, but they would be minor in comparison to the dislocations we will experience if we continue along our present course.

The great difficulty would lie in determining which programs should be cut. The only reasonable means of eliminating the least desirable or most wasteful expenditures is to cut the budget on a program-by-program basis. To advocate an across-the-board cut of 5 or 10 per cent would encounter legal obstacles and make it difficult for political decision-makers to agree to cut Social Security, Medicare, Veterans benefits, and the like. Still in all, the budget could be balanced by cutting out the fat as has been demonstrated by a recent study by U.S. Representative Philip Crane of Illinois entitled "How to Cut the Budget: A Program for Fiscal Reform." In that work, Representative Crane argues that using the figures in President Ford's proposed budget that approximately $52.5 billion could be cut from the budget for fiscal 1976. In proposing his budget cuts, Representative Crane recognizes no sacred cows. All 14 functional areas of the government are reduced (see Table II).

TABLE II.—*Suggested budget cuts—(Crane study)*

Budget Deficit as Proposed by President Ford

Proposed reductions by function:		*Reduction*
For fiscal year 1976	billion	$51.9
National defense	do	5.75
Foreign affairs	do	4.963
Space and technology	million	190
Natural resources, environment, and energy	billion	3.07
Agriculture	million	812
Community development	billion	4.62
Commerce and transportation	do	8.29
Education, manpower, and social services	do	4.05
Health	million	723
Public assistance/income security	billion	10.62
Veterans benefits	million	269
Law enforcement and justice	billion	1.156
General government	million	801
Budget allowances	billion	7.55
Total budget savings under Crane proposals	billion	52.864

Another valuable publication which points the way on how to balance the Federal budget is by Washington reporter Donald Lambro. He has examined 50 major and minor spending programs by the Federal Government, unearthed

the critical facts about their performance, and offered recommendations for abolition or reduction. In his book, "The Federal Rathole," Mr. Lambro estimates that among these programs alone, at least $25-billion in taxpayer's money could readily be saved. And Lambro's evidence is persuasive. There are, for instance, some 1,250 Federal advisory committees and boards embracing everything under the sun. They cost the taxpayers $75-million a year and produce nothing of demonstrable value. Then there is the $150-million annually pumped out for Federal movie-making—including no less than six fully equipped film-making agencies in HEW alone, 585 separate dental films, a $64,000 series teaching etiquette to Navy officers, and so forth.

If these much-needed programs are too difficult to cut, Lambro has others at the ready. Like the $49.5-million spent by the National Science Foundation for such things as teaching chimpanzees to talk or for research into something called "influence of dyadic relationships on adherence to stressful decisions." Or like $518-million promoting low-interest loans to foreign competitors to American business, or the $1.5-billion to the International Development Association will give away to foreign nations. And Lambro's list of expendables goes on and on.

The Crane and Lambro studies, along with a number of similar works on the same subject, have shown that a balanced budget can indeed become a reality. It all depends on whether we have the courage of our convictions and on how far we are willing to go in making sacrifices in domestic programs and foreign giveaways. Yet, to insure that we will eventually accomplish this objective, we must have a mandatory balanced budget provision in the U.S. Constitution. Nothing could be more in keeping with the spirit of our Bicentennial Celebration than to once again return fiscal responsibility to the operation of the Federal Government.

Senator FONG. Senator Thurmond?

STATEMENT OF HON. STROM THURMOND

Senator THURMOND. Thank you, Mr. Chairman and members of the committee.

Mr. Chairman, I am pleased to appear before the Subcommittee on Constitutional Amendments today to testify on behalf of S.J. Res. 55. This resolution of which I am a cosponsor proposes a constitutional amendment to require a balanced budget for the Federal Government.

A two-thirds vote of the House and the Senate and ratification by three-fourths of the States on this proposed constitutional amendment will provide a means to restore stability and strength to our Nation's economy.

Mr. Chairman, of the 21 years I have been in the U.S. Senate, the budget has been balanced only four times. This unfortunate practice of Federal spending beyond available revenues has resulted in a public debt totaling a staggering $533.2 billion as of June 30, 1975, with a projection of at least $60 billion to be added in this fiscal year 1976. Interest alone for fiscal 1975 totaled $32.7 billion. It is distressing to note that interest on the public debt is our third largest budget item, exceeded only by national defense outlays and income security outlays.

The American people ask, and justifiably so, how the country has been put so deeply in debt. The responsibility of this unfortunate situation falls squarely on the shoulders of the Members of Congress who have persisted in establishing massive Federal programs without regard to their cost. The last decade of Congress dealing in fiscal matters has been one of serious irresponsibility. The attitude that has prevailed in Congress in recent years, that problems can be solved

if enough money is spent on them, has put this Nation on the verge of bankruptcy.

We cannot spend our way into Utopia. Our citizens are demanding a reassessment of this approach. They have come to realize that somewhere, sometime, someone has to pay. Our citizens have begun to do just that in recent years through inflation that has eaten away at the purchasing power of the dollar. In my opinion, excessive and irresponsible spending of the Federal Government has been the primary cause of inflation, which has had the effect of reducing the standard of living for so many of our citizens.

Furthermore, rampant inflation, as we have recently witnessed, eventually leads to depressed economic activity, which means loss of jobs. If the Congress continues to mortgage our country's future, we are inviting economic disaster. I am convinced that if the Congress continues to spend beyond its means, our country may be driven into a depression the severity of which we have never witnessed before.

Mr. Chairman, for a number of years, I have supported an approach utilizing a constitutional amendment to require a balanced budget. I think it is regrettable that a constitutional amendment would be necessary to restore fiscal responsibility to the U.S. Congress. It has been my hope that Members of our legislative branch collectively would exhibit the judgment and restraint that commonsense citizens throughout this country exhibit in planning a simple household budget. It seems elementary that a country, just like an individual, cannot continually spend more than its available revenue. However, it appears as a practical matter that it is unlikely that Congress will face up to its responsibilities and make the difficult decision to balance the budget without a provision of this nature.

Senate Joint Resolution 55, as proposed to be modified, would require a budget deficit to be offset by a surtax to be levied in the calendar year following the fiscal year in which the deficit was incurred. Congress will have the opportunity to hold the line on Government expenditures so a surtax will not be necessary. However, if expenditures are made in excess of available revenues, a surtax sufficient to offset the excess expenditures will automatically go into effect. The essence of this approach is simple—if expenditures exceed revenues, a surtax will be levied to maintain a balanced budget.

Mr. Chairman, we are all aware, from a political standpoint, that tax increases are very unpopular. Certainly, we should not impose taxes on our citizens unless necessary to raise revenue for desired programs and essential Government operations. However, a constitutional amendment requiring a balanced budget would insure that the people know exactly what it will cost in terms of taxes to finance Federal programs. In my opinion, the Congress has been misleading the American people about the true costs of programs by continuing to increase expenditures without raising taxes. If the American people want massive, expensive Federal programs, and are willing to pay for them, then that is their choice. But the point is, they should know the true costs of these programs and have an opportunity to express their views to their representatives in Congress. I would like to point out that many expenditures made by Congress are for laudable, worthwhile purposes, and I am not attacking the merit of all of these expenditures. However, I do think the American people have a right to know the facts.

Mr. Chairman, there are those who tell us not to worry about growth in the national debt as long as our economy continues to expand. This is a position to which I do not subscribe. Moreover, it ignores that fact that the ratio of Federal debt to gross national product is presently increasing. In terms of current dollars, the country is experiencing slower growth in GNP than Federal spending. In the last 10 years, the GNP has increased by approximately 100 percent. Federal spending for the same period has increased more than 160 percent.

One of the unfortunate consequences of continued and excessive Federal spending has been the necessity of the Federal Government to compete with the private sector for funds in the capital markets. For the past several years, capital investment in our country has fallen behind that of such investment in other industrialized countries. Indeed, it appears to be a matter of general agreement that one of the key elements to economic stability and growth in the United States is capital expansion in the private sector. Capital expansion leads to increased capacity and production which means greater employment opportunities for citizens. It has been estimated that the United States, including both the Government and private sectors, will need a whopping $4.5 trillion in new capital during the next 10 years.

Recently, a number of proposals have been advance to facilitate and assist industry in meeting its capital needs. Mr. Chairman, I submit that one of the most effective steps we can take in this direction is to move toward a balanced budget. This will alleviate the necessity of the Federal Government going in and competing with private borrowers in the capital markets. Secretary of the Treasury Simon has indicated to the House Ways and Means Committee that the Treasury Department will be coming into the capital markets for almost $70 billion of net new financing during 1975. For fiscal 1976, the Government sector which includes Federal, State, and local governments, has been estimated to account for 80 percent of the funds raised in the securities markets, and, on a broader basis, 50 percent of the funds in the general financial markets, which include home mortgages and short-term credit.

Excessive Federal competition for available credit crowds other borrowers out of the market with the effect of pushing up interest rates. By requiring a balanced budget and thus curtailing Federal borrowing, the pressure on interest rates would be reduced. Surely no one would argue that a reduction in interest rates is not a desirable objective.

Mr. Chairman, I am very pleased that the proposed constitutional amendment includes a mechanism whereby the balance-the-budget requirement can be set aside in case of a grave national emergency, such as a state of declared war, or serious depression. In such a situation, the requirement will be suspended for periods of 1 year upon three-fourths vote of both the Senate and the House of Representatives. This provision adds desirable flexibility so that we might be able to make necessary expenditures in a situation where the security of our Nation is threatened.

Mr. Chairman, I am pleased that my home State of South Carolina has a constitutional provision requiring a balanced budget on the State government level. Article 10, section 2 of the South Carolina constitution requires that the general assembly shall levy sufficient

taxes to cover the expenses of the State on a yearly basis. In my opinion, this provision is primarily responsible for the sound, stable financial condition of my State. I am proud to report to you that South Carolina is presently 1 of only 12 States with a triple A bond rating.

As a former Governor, I have had the personal experience of witnessing the successful operation of government under a provision requiring a balanced budget. Yes, Mr. Chairman, government can operate successfully under a balance-the-budget requirement and the rewards are substantial. The rewards include a sound financial state of health with substantial economic growth.

I am most pleased that Hon. Grady L. Patterson, Jr., treasurer of the State of South Carolina, is scheduled to appear before this subcommittee on October 7, to testify further on South Carolina's constitutional provision and what it has meant to my State in financial terms. He will be accompanied by a group of distinguished leaders from my State, representing a variety of occupations and professions, who will also appear in support of a balance-the-budget approach for the Federal Government.

Mr. Chairman, we need to provide the country with the option of adopting a constitutional amendment to require a balanced budget.

All the rhetoric we continue to hear from Members of Congress about fiscal responsibility cannot hide the fact that the Federal Government continues to spend and spend without regard to available revenues. We need to take positive action now to put the Federal Government on a pay-as-you-go basis before it is too late. I believe Senate Joint Resolution 55 is a reasonable, direct, and effective method of dealing with the fiscal irresponsibility that has plagued our great Nation in recent years.

Thank you very much.

Senator FONG. Thank you, Senator Thurmond, for your excellent presentation of your views on this provision to amend the Constitution.

Senator McClure?

I am rushing the hearing because we have an executive session of the Judiciary Committee, which is in session now.

Senator SCOTT. Mr. Chairman, before the Senator commences, I would like to, either later this morning, or this afternoon—I understand Senator Curtis will be available this afternoon—I would like to explore with him at his convenience, either later this morning or this afternoon, some of the provisions of this bill, how they will work. I am in agreement with him, but there are some questions that I feel we should have clarified to my satisfaction, for the committee's satisfaction, and for the record.

Senator FONG. I want to thank you for volunteering to chair this meeting this afternoon; I must be absent for a House-Senate conference.

Senator SCOTT. I volunteer, like they do in the military.

Senator CURTIS. Mr. Chairman, may I inquire what the plans are?

Senator FONG. We shall continue this afternoon at 2 o'clock. My distinguished colleague from Virginia will chair the hearing. I have to be at the House-Senate conference on appropriations this afternoon.

Senator CURTIS. At what time will we adjourn this morning?

Senator FONG. I will try to go as far as we can, until the chairman of the Judiciary Committee calls me. So, we will proceed with Senator McClure.

STATEMENT OF HON. JAMES A. McCLURE

Senator McCLURE. Thank you very much, Mr. Chairman. I recognize the call on duties that divide our time, your time and my time, and the time of the other Members of the Senate.

I am pleased to have this opportunity to testify before this committee as it considers an issue as important as the balanced budget requirements contained in Senate Joint Resolution 55. I don't think there is a more important issue that could confront the Congress than the implications of this measure.

Most of us recognize that budgets are simply plans expressed in financial terms, and such, their size and scope reflect the extent of the activities undertaken. For this reason alone, the sheer size of the Federal budget, regardless of its deficit or surplus position, is of concern in any democratic society. The Federal budget has not always been as large a factor in our national life, nor has it been, historically, in a deficit position.

Prior to 1900, the budget needs of the new Nation were initially provided for by a growing stream of customs revenues. Occasionally deficits did appear, but they were invariably associated with periods of economic recession or war. As such, there was reason to believe that each of these deficits was temporary in nature and self-correcting in the short run. In fact, during this period, a series of actual surpluses reduced the size of the national debt.

During the period of time from the War Between the States until World War I, our national debt never exceeded the level achieved in 1866. Customs duties were replaced as a primary tax source during this period, and Federal income was increased by revenues from land sales and direct tax levies in other areas. Since these new taxes noticeably affected the citizen, they were less enthusiastically supported than the customs duties.

As a reaction to rising levels of Federal expenditures, the Sundry Civil Appropriation Act of 1909 required the Secretary of the Treasury to estimate expenditures and revenues. In addition, the Secretary was required to suggest expenditure reductions when it appeared that spending would exceed anticipated revenues. As such, the 1909 act was probably our first attempt to legislate a balanced budget. In 1921, revenues and expenditures were combined in a budget format. The Budget and Accounting Act of 1921 also defined the budgetary responsibility of the legislative and executive branches. From that time until the depression of the 1930's, budget surpluses were achieved in each year.

Budget deficits reappeared in 1931. In 1936, Representative W. D. McFarland submitted a bill, H.R. 11895, which would have required changes in tax rates designed to cover any deficit projected in the Presidential budget. In response to increasing levels of the national debt, and annual deficits during World War II and thereafter, a number of resolutions and bills designed to control deficit spending have been introduced. In the current Congress, some 19 budget-balancing and debt-reduction bills are under consideration.

More recently, Congress has attempted to achieve control over expenditures and deficits with the enactment of the Congressional Budget and Impoundment Control Act of 1974. In spite of the increased control which this legislation makes possible, it is generally anticipated that the deficit for fiscal year 1976 will exceed $70 billion; and my own personal estimate is that it will possibly be nearer $88 billion. It is my opinion that the deficit and our inability to control it are vital issues which have a significant, if unrecognized, impact on our society.

When families or businesses incur repeated and rising operating deficits, bankruptcy inevitably follows. When the Federal Government incurs such deficits, inflation is the inevitable consequence. This current round of inflation marks our fifth national experience with rapidly rising prices. Like our previous rounds of inflation, this one began in a war; but unlike its four predecessors, it has carried over into the postwar period for a substantial length of time. The budget deficits at the Federal level which caused previous rounds of inflation were modest by present standards. Since 1965, we have run cumulative deficits, excluding the current year, of $100 billion, and over 40 percent of the deficit has been financed by printing money. Deficits in a fully employed economy do not stimulate increases in production, but only increases in the price level.

Certainly, all deficits are not inflationary. However, they do provide an almost irresistible temptation to finance them in an inflationary manner. Of the three normal methods employed in the financing of the deficit, one is not inflationary; a second only moderately so; and the third a sure-fire scheme to raise prices and lower the value of all money and money-denominated assets. Let's look at each in turn.

In the face of a predictable deficit, in normal times, increased taxation

In the face of a predictable deficit, in normal times, increased taxation which transfers funds from private hands to the Public Treasury is basically noninflationary. Public spending rises, and private spending falls by the amount of the tax.

A second method which could be employed involves the Treasury in borrowing, from the pool of loanable funds, an amount sufficient to cover the deficit incurred. In this situation, interest rates rise and private borrowers, whose activities are highly interest-rate sensitive, are crowded out of credit markets. Inflationary effects here show up as ripple effects, and some prices increase. Again, however, the aggregate effects on the price level are manageable.

In the third deficit financing alternative, the borrowing operations of the Treasury are repeated, but now the Federal Reserve purchases the Treasury obligations, and in so doing, monetizes the newly created debt. This is done in such a way that Federal spending increases without a compensating reduction in private spending. The outcome of such a series of events is clear—interest rates rise, prices rise, speculational purchases begin, and the economy heats up. The eventual result is, of course, a recession occasioned by reduced investment spending and rapid inventory liquidation.

Just look around at the economy today, and you will see the perverse results of a monetized deficit. Modest tax surcharges and price and wage controls were employed ineffectively to cope with the symptoms of a problem which requires a more fundamental approach. Such

controls were the economic equivalent of rearranging the deck chairs of the *Titanic*.

The first step which must be taken requires that we recognize the true cause of our current difficulty. Who is responsible? How can the guilty party be controlled? It is obvious to me that the Federal Government has been the driving force behind our recent price spiral. As proof of this, we have only to consider the attempts the Government has made to lay the blame elsewhere. For example, former Treasury Secretary Connally indicated his position when he said:

> We are all causing inflation through our greed. We are all so greedy in competing for goods and services that we are, through competition, driving up prices.

In this view, rising expectations and free markets are the ultimate source of inflation. Herbert Stein, just prior to his retirement from the Council of Economic Advisers, reinforced this view by indicating that the American people were responsible for rising prices. Others have viewed high interest rates and inflation as an outgrowth of a lack of competition among banks. This view is especially exciting since it demonstrates an ignorance of both history and banking. This scapegoating activity at the Federal level has reached an ethical low which should not be tolerated by labor, business, or the American people.

The principal culprit in our current economic difficulty is the Federal Government. To be sure, but painful, cure for inflation and the inflation-caused recession is simply to slow the rate of growth in the money supply. Unfortunately, this cannot be done without the elimination of recurrent high-employment Federal deficits. In turn, deficits cannot be controlled until we recognize two facts:

First, money expenditures do not solve social problems: and

Second, more money spent on a bad idea will not make that idea good.

One clear illustration of the fact can be found in the current financial situation of New York City. When John Lindsay was elected mayor of that city, he boldly proclaimed that the city's only problem was lack of money in the public sector. He contended that if the municipal budget were twice its size, he could solve every existing problem. The day John Lindsay left office, the municipal budget was over twice as large as when he was first elected. Despite that fact, by any measure, from education to garbage collection, New York was a worse place to live in than it had been at the time he took over.

Money does not solve problems—for individuals or for nations. New ideas and the reaffirmation of older, but valid financial standards, however, are proven methods of economic problem solving. Today, we should turn our attention to principles of fiscal integrity not only because we hope to avoid inflation, but also because we strive to preserve this democracy.

You will recall that I began by saying that a budget is a plan of action expressed in financial terms. The scope of the current Federal budget reflects the extent to which the Government has become involved in the day-to-day activities of its citizens. The inflation which that budget has spawned results in changes in the incomes of people and the distribution of the total income of the society. It is more frightening to realize that these basic changes have occurred in large measure without legislative action or political consensus. One small

example may illustrate this point. The following chart shows, for a family of four, the rate of tax increase which has been caused by the inflation of money incomes, within a progressive tax structure.

I think, Mr. Chairman, you have the chart before you. I will not bother to read the figures; I ask that they be included in the record.

Senator FONG. There being no objection, they will be included.

Senator MCCLURE. The effective Federal tax rate of this typical family has risen by nearly 10 percent from 1967 to 1974. During the period, however, no tax increases were voted. In short, the deficit resulted in taxation without representation. I wonder if we have not come full circle in the past 200 years of the Republic. This is but one small example of the tyranny of an inflationary deficit. It is also interesting to note that inflationary tax increases such as those illustrated caused taxes to rise in this recession and in so doing, destroyed the countercyclical thrust of a progressive tax system.

Another and less noticeable impact of inflation involves a redistribution of wealth from the private to the public sector and within the private sector itself. The Federal Government is our most significant net monetary debtor. Therefore, inflation permits the Government to borrow full value dollars and repay with devalued dollars at a later date. An example of such an inflationary gain at the Federal level can be illustrated as follows:

A 5 percent, $1,000 Government obligation purchased by a saver in 1967 and held to maturity in 1972 would have resulted in a loss of purchasing power of principal of more than $195 to the investor. Even when the interest paid is added back, the saver's return is little more than zero.

I have included in my statement a table which shows the interest receipts by year, the purchasing power in 1967 dollars by year, which shows that $250 in interest received by that 5-percent Government debt amounted to a total of $219.26 in purchasing power.

As exhibit No. 2 reveals, the $250 received in the form of interest were worth only $219.26 in real purchasing power. Thus, the saver's complete return in constant dollar purchasing power was $1,024.26, or a rate of return on his $1,000 of close to zero.

In short, spending policies and their associated deficits have functioned to the advantage of the Treasury and its clients, while working to the disadvantage of those who earn and those who save.

The larger issue which the budget and its inevitable deficits raise, concerns the relationship between economic and political freedom. Economic freedom, defined as the ability to seek to satisfy individual needs by individual activities, has been seriously threatened by the expanding size of the Federal budget.

As additional revenues and responsibilities pass from the private to the public sector, fewer individual economic choices remain. The extent to which resources have gravitated from private to public hands is staggering. The rate of growth in government spending has been breathtaking. It required 186 years for the Federal budget to reach $100 billion; 9 more years to reach $200 billion; 4 more years to break the $300 billion mark. An even more revealing figure is apparent when we look at government spending as a percentage of total GNP. Less than 45 years ago goverment spending was only 12 percent of total spending. Now it is over 32 percent of the national total, and if present

trends continue, government will be doing 60 percent of the total spending by 1999.

These levels of spending have reduced individual responsibility and have increased the dependency of the citizen on the Government. One indication of this is that 1 out of every 6 Americans work directly for State or Federal Government. For as long as government at all levels continues its attempt to regulate an even larger sphere of private activity and for as long as legislation continues to be responsive but irresponsible, the size of the budget and its corresponding deficit will increase.

The purpose of Senate Joint Resolution 55 is to insure that growth in Federal expenditures and activities is matched with a willingness on the part of taxpayers to approve and fund that growth. It is my personal belief that when people recognize that there is no free lunch, and when the costs of government are clearly known to them, they will vote for less government and more private responsibility.

For this and other reasons, I support Senate Joint Resolution 55. I thank you, Mr. Chairman.

Senator FONG. Thank you, Senator McClure, for your very thoughtful statement. A copy will be included in the record.

[The complete statement of Senator James A. McClure is as follows:]

STATEMENT BY SENATOR JAMES A. MCCLURE

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Most of us recognize that budgets are simply plans expressed in financial terms, and as such, their size and scope reflect the extent of the activities undertaken. For this reason alone, the sheer size of the Federal budget, regardless of its deficit or surplus position, is of concern in any democratic society. The Federal budget has not always been as large a factor in our national life, nor has it been, historically, in a deficit position.

Prior to 1900, the budget needs of the new nation were initially provided for by a growing stream of customs revenues. Occasionally deficits did appear, but they were invariably associated with periods of economic recession or war. As such, there was reason to believe that each of these deficits was temporary in nature and self-correcting in the short run. In fact, during this period, a series of actual surpluses reduced the size of the national debt.

During the period of time from the War Between the States until World War I, our national debt never exceeded the level achieved in 1866. Customs duties were replaced as a primary tax source during this period, and Federal income was increased by revenues from land sales and direct tax levies in other areas. Since these new taxes noticeably affected the citizen, they were less enthusiastically supported than the customs duties.

As a reaction to rising levels of Federal expenditures, the Sundry Civil Appropriation Act of 1909 required the Secretary of the Treasury to estimate expenditures and revenues. In addition, the Secretary was required to suggest expenditure reductions when it appeared that spending would exceed anticipated receipts. As such, the 1909 Act was probably our first attempt to legislate a balanced budget. In 1921, revenues and expenditures were combined in a budget format. The Budget and Accounting Act of 1921 also defined the budgetary responsibility of the legislative and executive branches. From that time until the depression of the 1930's, budget surpluses were achieved in each year.

Budget deficits reappeared in 1931. In 1936, Representative W. D. McFarland submitted a bill (H.R. 11895) which would have required changes in tax rates designed to cover any deficit projected in the Presidential budget. In response to increasing levels of the national debt, and annual deficits during World War II and thereafter, a number of resolutions and bills designed to control deficit spending have been introduced. In the current Congress, some 19 budget balancing and debt reduction bills are under consideration.

More recently, Congress has attempted to achieve control over expenditures and deficits with the enactment of the Congressional Budget and Impoundment Control Act of 1974. In spite of the increased control which this legislation makes possible, it is generally anticipated that the deficit for Fiscal Year 1976 will exceed $70 billion. It is my opinion that the deficit and our inability to control it are vital issues which have a significant, if unrecognized, impact on our society.

When families or businesses incur repeated and rising operating deficits, bankruptcy inevitably follows. When the Federal Government incurs such deficits, inflation is the inevitable consequence. This current round of inflation marks our fifth national experience with rapidly rising prices. Like our previous rounds of inflation, this one began in a war; but unlike its four predecessors, it has carried over into the post-war period for a substantial length of time. The budget deficits at the Federal level which caused previous rounds of inflation were modest by present standards. Since 1965, we have run cumulative deficits, excluding the current year, of $100 billion, and over 40% of the deficit has been financed by printing money. Deficits in a fully employed economy do not stimulate increases in production, but only increases in the price level.

Certainly, all deficits are not inflationary. However, they do provide an almost irresistible temptation to finance them in an inflationary manner. Of the three normal methods employed in the financing of the deficit, one is not inflationary, a second only moderately so, and the third a sure-fire scheme to raise prices and lower the value of all money and money-denominated assets. Let's look at each in turn.

In the face of a predictable deficit, in normal times, increased taxation which transfers funds from private hands to the public treasury is basically non-flationary. Public spending rises, and private spending falls by the amount of the tax. A second method which could be employed involves the Treasury in borrowing, from the pool of loanable funds, an amount sufficient to cover the deficit incurred. In this situation, interest rates rise and private borrowers, whose activities are highly interest-rate sensitive, are crowded out of credit markets. Inflationary effects here show up as ripple effects, and some prices increase. Again, however, the aggregate effects on the the price level are manageable. In the third deficit financing alternative, the borrowing operations of the Treasury are repeated, but now the Federal Reserve purchases the Treasury obligations, and in so doing, monetizes the newly created debt. This is done in such a way that Federal spending increases without a compensating reduction in private spending. The outcome of such a series of events is clear—interest rates rise, prices rise, speculational purchases begin and the economy heats up. The eventual result is, of course, a recession occasioned by reduced investment spending and rapid inventory liquidation. Just look around at the economy today, and you will see the perverse results of a monetized deficit. Modest tax surcharges and price and wage controls were employed ineffectively to cope with the symptoms of a problem which requires a more fundamental approach. Such controls were the economic equivalent of rearranging the deck chairs on the Titanic.

The first step which must be taken requires that we recognize the true cause of our current difficulty. Who is responsible? How can the guilty party be controlled? It is obvious to me that the Federal Government has been the driving force behind our recent price spiral. As proof of this, we have only to consider the attempts the government has made to lay the blame elsewhere. For example, former Treasury Secretary Connally indicated his position when he said, "We are all causing inflation through our greed. We are all so greedy in competing for goods and services that we are, through competition, driving up prices."

In this view, rising expectations and free markets are the ultimate source of inflation. Hebert Stein, just prior to his retirement from the Council of Economic Advisors, reinforced this view by indicating that the American people were responsible for rising prices. Others have viewed high interest rates and inflation as an outgrowth of a lack of competition among banks. This view is especially exciting since it demonstrates an ignorance of both history and banking. This scapegoating activity at the Federal level has reached an ethical low which should not be tolerated by labor, business or the American people.

The principal culprit in our own current economic difficulty is the Federal Government. The sure, but painful, cure for inflation and the inflation-caused recession is simply to slow the rate of growth in the money supply. Unfortunately, this cannot be done without the elimination of recurrent high-employment Federal deficits. In turn, deficits cannot be controlled until we recognize two facts: 1) money expenditures do not solve social problems; and 2) more money spent on a bad idea will not make that idea good.

One clear illustration of the fact can be found in the current financial situation of New York City. When John Lindsay was elected Mayor of that city, he boldly proclaimed that the city's only problem was a lack of money in the public sector. He contended that if the municipal budget were twice its size, he could solve every existing problem. The day John Lindsay left office, the municipal budget was over twice as large as when he was first elected. Despite that fact, by any measure, from education to garbage collection, New York was a worse place to live in than it had been at the time he took over.

Money does not solve problems—for individuals or for nations. New ideas and the reaffirmation of older but valid financial standards, however, are proven methods of economic problem solving. Today, we should turn our attention to principles of fiscal integrity not only because we hope to avoid inflation, but also because we strive to preserve this democracy. You will recall that I began by saying that a budget is a plan of action expressed in financial terms. The scope of the current Federal budget reflects the extent to which the government has become involved in the day-to-day activities of its citizens. The inflation which that budget has spawned results in changes in the incomes of people and the distribution of the total income of the society. It is more frightening to realize that these basic changes have occurred in large measure without legislative action or political consensus. One small example may illustrate this point. The following chart shows, for a family of four, the rate of tax increase which has been caused by the inflation of money incomes, without a progressive tax structure:

FEDERAL TAXES

Year	Real family income	Money family income [1]	Taxable income	Federal tax liability	After-tax money income	After-tax real income [2]	Tax as a percent of money income
1967	$9,076	$9,076	$5,768	$956	$8,120	$8,120	10.5
1968	9,076	9,457	6,111	[3] 1,098	8,359	8,022	11.6
1969	9,076	9,968	6,571	[3] 1,219	8,749	7,968	12.2
1970	9,076	10,556	7,056	[3] 1,231	9,325	8,018	11.7
1971	9,076	11,010	6,879	1,167	9,843	8,115	10.6
1972	9,076	11,373	6,667	1,127	10,246	8,177	9.9
1973	9,076	12,078	7,266	1,241	10,837	8,142	10.3
1974	9,076	13,407	8,407	[4] 1,470	11,937	8,082	11.0

[1] Inflated by the annual growth rate in the consumer price index.
[2] Deflated by the annual average consumer price index for each year.
[3] Includes surcharge.
[4] Excludes rebate.

Note: Standard deductions joint return.

The effective federal tax rate of this typical family has risen by nearly 10% from 1967 to 1974. During the period, however, no tax increases were voted. In short, the deficit resulted in taxation without representation. I wonder if we have not come full circle in the past 200 years of the Republic. This is but one small example of the tyranny of an inflationary deficit. It is also interesting to note that inflationary tax increases such as those illustrated caused taxes to rise in this recession and in so doing, destroyed the counter-cyclical thrust of a progressive tax system.

Another and less noticeable impact of inflation involves a redistribution of wealth from the private to the public sector and within the private sector itself. The Federal government is our most significant net monetary debtor. Therefore, inflation permits the government to borrow full value dollars and repay with devalued dollars at a later date. An example of such an inflationary gain at the federal level can be illustrated as follows:

A 5% 1,000 Dollar government obligation purchased by a *saver* in 1967 and held to maturity in 1972 would have resulted in a loss of purchasing power of principal of more than 195 dollars to the investor. Even when the interest paid is added back, the saver's return is little more than zero.

EXHIBIT 2

Year	Interest receipt	Purchasing power in 1967 dollars
1968	$50	$48.08
1969	50	45.86
1970	50	43.48
1971	50	41.60
1972	50	40.24
Total	250	219.00

[1] Deflated by the GNP implicit price deflator.

As Exhibit 2 reveals, the $250 received in the form of interest were worth only $219.26 in real purchasing power. Thus, the saver's complete return in constant dollar purchasing power was $1,024.26 dollars (805 + 219.26) or a rate of return on his $1,000 of close to zero.

In short, spending policies and their associated deficits have functioned to the advantage of the Treasury and its *clients*, while working to the disadvantage of those who earn and those who save.

The larger issue which the budget and its inevitable deficits raise, concerns the relationship between economic and political freedom. Economic freedom, defined as the ability to seek to satisfy individual needs by individual activities, has been seriously threatened by the expanding size of the Federal Budget. As additional revenues and responsibilities pass from the private to the public sector, fewer individual economic choices remain. The extent to which resources have gravitated from private to public hands is staggering. The rate of growth in government spending has been breath-taking. It required 186 years for the Federal budget to reach 100 billion dollars; nine more years to reach 200 billion dollars; four more years to break the 300 billion mark. An even more revealing figure is apparent when we look at government spending as a percentage of total GNP. Less than 45 years ago government spending was only 12% of total spending. Now it is over 32% of the national total, and if present trends continue, government will be doing 60% of the total spending by 1999. These levels of spending have reduced individual responsibility and have increased the dependency of the citizen on his government. One indication of this is that one out of every 6 Americans works directly for State or Federal government. For as long as government at all levels continues its attempts to regulate an even larger sphere of private activity and for as long as legislation continues to be responsive but irresponsible, the size of the budget and its corresponding deficit will increase. The purpose of S.J. Res. 55 is to insure that growth in Federal expenditures and activities is matched with a willingness on the part of tax payers to approve and fund that growth. It is my personal belief that when people recognize that there is no free lunch and when the costs of government are clearly known to them, they will vote for less government and more private responsibility.

For this and other reasons, I support S.J. Res. 55.

Thank you.

Senator FONG. I regret that we have to recess at this time, as the Judiciary Committee is about to receive a quorum. Senator Scott and I will make the quorum, and we will have to be at the executive session of the Judiciary Committee for the balance of the morning.

This hearing will be resumed at 2 o'clock this afternoon, when we will hear from Senator Fannin, Senator Garn, Dr. James Buchanan, Dr. William Niskanen, and Mr. David Halbrook.

The hearing is recessed until 2 o'clock this afternoon.

[Whereupon, at 11:05 a.m., the subcommittee recessed, to reconvene at 2 p.m. on the same day.]

AFTERNOON SESSION

Senator SCOTT. The committee will resume its session. Is Dr. Buchanan here? Doctor, if you would, Dr. James Buchanan of the Virginia Polytechnic Institute at Blacksburg; it is very good to welcome a fellow Virginian to the committee.

If you will just go right ahead, proceed in any way you care to, Doctor. If you want to insert your remarks in the record and proceed with your own remarks, that's fine; if you want to read the entire statement into the record, proceed in your own manner.

STATEMENT OF DR. JAMES BUCHANAN

Dr. BUCHANAN. Thank you very much, Mr. Chairman. I appreciate the opportunity to appear before the subcommittee at these hearings.

I think I will submit my remarks, written remarks for the record, and then I will just make a few comments related to the remarks and go over, perhaps, some parts of them.

Senator SCOTT. Might, you, Doctor, identify yourself a little more fully, just so we will know a little more about you?

Dr. BUCHANAN. All right. I am James M. Buchanan, university professor of economics and director, Center for Study of Public Choice, Virginia Polytechnic Institute, Blacksburg, Va. I am a specialist, more or less, in public finance, and especially the political aspect of public finance, in that general area.

I might add, in my written remarks I am joined by my colleague, Prof. Richard Wagner, with whom I work on a long-range project in this whole area of fiscal responsibility.

Many of the parts of my written remarks have been reflected in the four excellent presentations by the Senators we had this morning, and I am not proposing to go over much of the factual record, which I think is for all of us to see, the increasing fiscal irresponsibility on the part of the Federal Government; and when my friends question my charges to that respect I generally respond by saying, "We'll wait a few more years and see."

So, it seems to me that the charge of fiscal irresponsibility on the part of the budgetary makers, or budgetary authorities—and I think the executive branch and the Congress share in this responsibility—I think that is becoming increasingly more evident.

In a way I want to represent the economists here at this hearing and say that we bear our own share for this debacle we now find ourselves in because I think we can truthfully say that up until the impact of the Keynesian ideas in economics, that there was implicitly a constitutional constraint on the political leaders who made the budgets, on the budgetary authority of both the Congress and the executive branch. It wasn't written down as this proposed amendment that we have been talking about today; but implicitly, there was a balanced budget constraint, what we effectively call a fiscal constitution. I think politicians were constrained by the existence of this sort of unwritten rule; the standard of the unwritten rule was accepted as part of the fiscal gospel. The economists bear the primary responsibility for destroying that rule. They destroyed that rule through the Keynesian revolution, which gave an intellectual apologetic for unbalancing budgets in one

direction, and that was essentially an emphasis of the Keynesian revolution in terms of fiscal policy.

It seems to me the best way to interpret is to say it destroyed one genuine aspect of our fiscal constitution. I think the economists were very naive, very, very naive because they adopted essentially policies, norms laid down by Lord Keynes; and they forgot that the norm ought to be applied to a democratic political system.

Lord Keynes, as his biography makes quite clear, was writing his theory and writing his policy norms on the presupposition that a few wise men would really be the dictators and they could run the country. They would develop policy, and periods of deficit would always be offset by surpluses during periods of boom.

Economists were very naive in extending that sort of policy norm over into a setting where you have genuine democratic politics. I, for one, like democratic politics. I think our Congressmen, our Senators, our Presidents should be responsible to the people. Once we recognize that they should be responsible to the people, and then apply the Keynesian norms, it becomes quite clear that there is a bias toward deficits.

Political representatives, Congressmen, find it very difficult to legislate tax increases, and find it very easy to legislate increases in spending; and the built-in bias for deficit becomes obvious when you begin to think about it, that is an extremely simple point. They have been grossly naive, and I think it's time for some of us to stand up and face our responsibility in this respect. This is my first general point.

The second general point I would like to make, and which I emphasize in my written statement, is the necessity now for this to be done constitutionally. And I think the Senators who are cosponsors for this Senate resolution ought to be commended for recognizing that point. We have destroyed what I call the implict fiscal constitution; we need somehow to restore these constraints on the proclivities of our elected politicians to spend and not tax.

I think it's far too easy to lay the blame on our elected representatives for simply doing what their constituents want them to do. That's what we predict they would do, and that's what they should do. But we also should recognize that they ought to operate within specific constitutional constraints. And it seems to me it is absolutely essential, if we are to get out of this debacle, to step back and see how we might in fact lay down generalized rules within which we agree to operate. It seems to me that is the attraction to me of approaching that thing on the constitutional level, rather than just trying to go year by year and saying, "You must be more responsible, pass on a budget reform act," or something to that effect.

What I am interested in here is not so much the specifics of this particular resolution—as was mentioned this morning, there are several possible alternative resolutions, or shapes, or forms that these amendments might take—but I think it is essential that we get the dialog to commence, and get it commenced at a constitutional level; get the public, if we can, and the media, and the political leaders interested in discussing just the sort of constraints that we need to impose at the constitutional level, which will put this thing in balance. That is why I am very much encouraged that this is taking the constitutional form.

I think we must do it in this route, having destroyed the implicit constitutional constraints that did exist. There are many particulars

where we might discuss about what would happen in emergency situations; or how would we in fact have an idealized monetary constitution to go along with this, and there is much to be said about that. It's difficult to treat the budget side without the monetary side, but these are to me of secondary order in comparison to getting the dialog started because it seems to me absolutely essential that we get this deficit side, this deficit under some control.

And again, let me express my appreciation for being here and the opportunity to make these remarks. I submit my written testimony for the record.

Senator SCOTT. Doctor, we appreciate that, and your full statement will be included in the record.

As I understand it, in your testimony you are talking about the creation of budget committees. Are you expressing the opinion that the newly created House and Senate Budget Committees will not do the job that we need done to maintain fiscal stability?

Dr. BUCHANAN. Well, as you know, Senator, I'm very encouraged that the Congress was motivated to try to do something that indicated an increasing awareness and recognition that the problem of Federal spending must somehow be tackled. I think the record of course is not yet in on how these committees will in fact be able to accomplish their stated objectives. Quite frankly, I am not very optimistic, but I hope I'm wrong.

Senator SCOTT. I share your fear. We started this year with the President submitting a $52 billion deficit budget, and the latest figures I have seen are up to $82 billion, the estimate for the deficit for this one fiscal year. The committees have actually increased the amount of the deficit.

Doctor, again, we thank you for your contribution, and we appreciate you coming and being with us.

[The written statement of Dr. James Buchanan is as follows:]

STATEMENT SUBMITTED BY JAMES M. BUCHANAN FOR HEARINGS BEFORE SUBCOMMITTEE ON CONSTITUTIONAL AMENDMENTS OF THE SENATE JUDICIARY COMMITTEE, SCHEDULED FOR 23 SEPTEMBER 1975

Introduction

I am James M. Buchanan, University Professor of Economics and Director, Center for Study of Public Choice, Virginia Polytechnic Institute and State University, Blacksburg, Virginia. I am cofounder of the Public Choice Society, and I have written several books in public finance, economic theory, and political philosophy.

I am joined in the written statement submitted here by my colleague, Professor Richard E. Wagner, who has also written books in public finance, and with whom I am currently working on the subject of "fiscal responsibility." We are preparing a major conference on this topic, and we hope to complete a book on this subject in 1976.

DEFICIT SPENDING IN CONSTITUTIONAL PERSPECTIVE

(By James M. Buchanan and Richard E. Wagner)

We are pleased to have this opportunity to support Senate Joint Resolution 55. Senator Curtis and his colleagues should be congratulated for raising an issue that is vital not just for the continued prosperity of American citizens, but even for our continued existence as a free and democratic society.

A continually growing body of evidence indicates that prevailing fiscal practices and institutions are inadequate for ensuring fiscal responsibility. Budgets

for the federal government show deficits whether the economic weather is fair or foul, and these deficits get larger with each passing year. Since 1961, there has been only one year of budget surplus, 1969. During the 16 year period, 1961–76, the 15 years of deficit, including projections for 1975 and 1976, totaled almost $230 billion. Moreover, the deficits are growing in magnitude. For the eight year period, 1961–68, the cumulative deficit was $60 billion. During the five year period, 1970–74, by contrast, the cumulative deficit was $67 billion. And the projected cumulative deficit for the two years, 1976 and 1976, is now more than $100 billion.

It takes no technical economic wisdom to suggest that this pattern of irresponsibility cannot long continue. History is replete with instances of societies that explode and collapse due to inflationary fires fueled by government deficits. The destruction of democracy in Ancient Rome and in interwar Germany are but two illustrations, albeit quite significant ones. John Maynard Keynes, in whose name the present inflationary thrust is often legitimatized, was awed by the destructive capabilities of inflation. In *The Economic Consequences of the Peace*, Keynes observed that "There is no subtler, nor surer, means of overturning the existing basis of society than to debauch the currency. The process engages all of the hidden forces of economic law on the side of destruction, and does it in a manner which not one man in a million is able to diagnose." Keynes, we fear, was entirely correct in his vision of the destructive power of inflation. And can anyone seriously question the direct relationship between deficit finance and inflation?

How have we come to be trapped in a regime of continual and mounting deficits? What are the reasons for the institutional failures that we observe?

It is relatively easy to place the full blame on our elected political representatives, in the Congress and in the Executive branch, and to suggest that if these politicians would only listen carefully to the teachings of the economics all would be well. Indeed, this is precisely what the so-called Keynesian economists have been saying for thirty years. If we would only let them, these economists would "fine tune" the economy, and we should never have to worry about a thing. Since 1961, the ideas of these economists have become the conventional wisdom that underlies public policy. And we can all see how finely tuned our economy has become! It is ironic, but also tragic, that the period when these ideas have finally attained widespread public acceptance coincides with their refutation in academic circles. Keynes was prophetic here too, when he noted that "Practical men * * * are usually the slaves of some defunct economist."

In the minds of the citizenry old-fashioned norms of fiscal responsibility have been replaced by Keynesian activism, and this has profoundly altered the constraints under which our elected politicians operate. It has always been easier to legislate tax *reductions* than to legislate tax *increases*. Similarly, it has always been easier to legislate *expansions* in federal spending than to legislate *reductions*. When these differential pressures are combined, the arithmetical result is straightforward. Budgets will tend toward chronic deficits *until and unless politicians are constrained by some constitutional rule which requires that the taxing and the spending sides of the fiscal account be balanced*. We, as citizens, must be made explicitly to "pay for" what we are getting. (We must pay for it in any case, of course, but it is a question of paying for things openly and responsibly rather than secretly, indirectly, and in some genuine sense, corruptibly.)

Until the 1960s, we did, in fact, have such a constraint, even though it was not written in our formal constitution. Politicians, economists, journalists, the public at large, adhered to the rule that public budgets should be balanced. This rule, this constraint, was destroyed by the general acceptance of Keynesian economic theory. Although the development of Keynesianism began in the 1930s, its widespread acceptance dates from the early 1960s. The early post-war period, for instance, was informed by the pre-Keynesian ideas about fiscal responsibility. During the 14-year period, 1947–60, there were even years of deficit and seven years of surplus. And the total budget was roughly balanced over this period, with the deficits summing to $31 billion and the surpluses amounting to $30 billion. Yet our unemployment history was roughly identical as between the pre-Keynesian and the Keynesian periods; unemployment averaged 4.6 per cent during 1947–60, and it averaged 4.9 per cent during 1961–74.

Our history since 1961 teaches us that we cannot destroy one side of a rule. Once the balanced-budget constraint faded out of our fiscal consciousness, we should have expected a regime of continued deficits, in fair weather and foul. The surprise is that it took so long in coming; it took until the 1960s before the Keynesian economic teaching really exerted its full influence. The results are here for all of us to see.

Our tradition-bound economist colleagues throughout the land will object to the proposed budget-balance amendment on the grounds that if adopted, it might overly restrict the ability of Congress and the Executive to fulfill the employment-prosperity objective laid down in the Employment Act of 1946. Deficits may be required, they will argue, if the nation should be plunged into deep depression on the scale of the 1930s. We respond to this on several counts. In the first place, there is an escape clause in the proposed amendment which does allow the constraint to be dropped in emergency situations, as defined by three-fourths of the members of each house. Secondly, and more importantly, accumulating economic research suggests that the full employment-high prosperity objectives can be attained, not by deficit spending, but by maintenance of sound operation and predictability in our whole monetary and fiscal structure, which will ensure growth in the nation's money supply at some rate consistent with growth in national productivity. Finally, some critics may argue that limited-size budget deficits offer a desirable means of introducing new money into the economy, new money that is related in quantity to the rate of productivity increase. The proposed balanced-budget amendment would prevent this fully responsible policy from being implemented. This would, indeed, amount to a serious objection to a rule of strict budget-balance in an economy without an outstanding national debt. However, given our own debt in existence, the resposible issue of new money can be utilized to monetize debt for decades before such an argument could begin to have validity.

Psychologists note that past traumatic experiences often color strongly our reactions to subsequent circumstances. As a society we have been plagued by one such experience: The Great Depression. An after effect of that traumatic episode has been our loss of faith in the functioning of our free enterprise economy, and in the efficacy of previous norms of economic conduct. Before 1930, our economy had its ups and downs, as any free economy must. The down-turns, however, were always self-correcting and short-lived, even when governmental policy acted to exacerbate the situation.

The Great Depression began as a normal down-turn, but was radically worsened by the activities of the Federal Reserve System in contracting the nation's money supply by nearly 25 per cent between 1929 and 1933. The lesson that people retained from the 1930s was that our economy had changed radically in its character, for it was no longer viewed as being capable of operating on its own in a self-correcting manner. The economy was viewed as inherently unstable, much like a spinning top, and governmental guidance and intervention was necessary to keep the top stable and spinning. In truth, the wrong lesson was learned from the 1930s. The self-correcting character of our free enterprise economy had not changed. What began as an ordinary down-turn was converted to a catastrophe by the actions of a particular *public* agency.

We are coming increasingly to suffer from an over-dosage of wrongly prescribed medicine. The deficit spending biases of Keynesian economics are making our economy ever more fragile, and, indeed, unstable. Inflation might temporarily stimulate the economy, but a price would have to be paid later, much as the mirthfulness of the heavy drinker can be prolonged for a while, but eventually must turn into a hangover. Inflation creates false signals throughout the economy. Labor is attracted to employments that cannot be sustained without even greater inflation in the future. And the end product of such a course is the potential destruction of civil order, as history attests only too clearly. Inflation cannot end without some hangover, and increasing inflation merely postpones the day of reckoning, and makes that day even more painful.

We must restore some rule that will restrict politicians in their natural, understandable proclivity to spend and to refrain from taxing. (And, in an indirect sense, this is the same as saying that all of us, as voters, must restrict ourselves.) And this rule must be explicitly constitutional. It is for this reason that we strongly endorse the constitutional dialogue that discussion of the proposed amendment will generate. For those who do not like the particular form of this proposed amendment, let them suggest a better one, but do not let them say that no problem exists. Such neglect points the way to fiscal and economic ruin; that road is plain to see.

Our major concern lies not with the proposed amendment on fiscal responsibility. We endorse this proposal. Our concern lies in the absence of a companion amendment which will constrain the nation's monetary authorities. Even if we should secure the adoption of this amendment, and a regime of fiscal responsibility should be restored, this could still be undermined by irresponsible monetary actions, either actions which might bring the economy to the depths of deep

depression, as in the 1930s, or to the excess of inflation, as in the 1970s. Let us get on with imposing constraints on the potentially irresponsible actions of those who control the supply of money, as well as on those who make budgets. Admittedly, much of the pressure on the monetary authorities within the last decade has stemmed from the necessity to finance ever-increasing budget deficits. But we should not allow the demonstrable fiscal irresponsibility to blind us to the potential irresponsibility of the monetary authorities who should, also, be constrained through well designed constitutional rules.

Senator SCOTT. Now, I understand that my colleague, Senator Garn will be here and we will wait just a moment and have him as our next witness. I understand he is on his way.

Senator CURTIS. Mr. Chairman, I understand that Senator Garn will return later; you can go ahead with the witnesses.

Senator SCOTT. Thank you, Senator.

Now, Dr. Niskanen, if you would come up here. We welcome you to the committee today, and ask you to proceed in whatever way you prefer.

STATEMENT OF DR. WILLIAM A. NISKANEN

Dr. NISKANEN. Thank you, Senator Scott, members of the committee, staff and guests. My name is William A. Niskanen. I am now chief economist for the Ford Motor Co. May I emphasize, however, that my testimony today reflects only my personal views as a student of government budgeting and as a concerned individual, and does not represent a company position.

I am pleased to have this opportunity to testify concerning Senate Joint Resolution 55. This proposed amendment to the Constitution addresses one of the most important problems of our time and reflects a number of critical insights.

1. A consensus is developing that the Federal budget is "out of control." This concern is expressed by the public and by officials in both the administration and Congress. It is manifest in increasing pressure for tax reform and by the important recent changes in the congressional budget process. The objective basis for this concern is less clear, but probably includes at least the following conditions:

Since 1965, Federal spending has increased at a substantially faster rate than the increase in national output.

Around 80 percent of present Federal spending in this regard is "uncontrollable" without a change of legislation.

For the first time in American history, total Federal spending did not decline after a war.

Although Federal officials pay lipservice to the desirability of a balanced budget, the Federal budget has had a deficit each year since 1969, and recent deficits have reached peacetime record high levels.

Also, for the first time there is no prospect on the 5-year budget planning horizon for a balanced Federal budget, unless present programs are reduced and/or tax rates increased.

The increasing amount and share of our economic output that is allocated by the Federal Government, combined with the pressure of increasing deficits on interest rates and inflation, present what I regard as a "clear and present danger" to our present well-being, our future economic productivity, the viability of a liberal democracy, and our personal liberty.

2. The proposed amendment reflects a critical insight that the rate of growth of Federal spending is related to our willingness to finance

a growing proportion of the spending by borrowing rather than by taxation.

For most of American history, except during intermittent wars and recessions, the Federal budget had a surplus. A fiscal rule that Federal spending should normally be slightly less than tax revenues, I contend was part of our implicit Constitution through the early 1960's. Even for the first 20 years following World War II, a period that included a war and several recessions, the Federal budget had a surplus in 11 years of these 20 years, and a cumulative surplus over the period. After several decades of assault on the balanced budget rule by the economic community, however, a skeptical President Kennedy endorsed the "new economics." A tax reduction was approved in 1964, a prosperous year that—maybe not incidentally—was also an election year.

The murmur of self-congratuation among economists was enough to disguise the fact that the "new economics" does not suggest a new fiscal rule. Once the nexus between Federal spending and tax revenues was broken, no consensus developed on any other rule to constrain the level of spending and the deficit. In the following 11 years through fiscal 1976, a period that also included a war and two recessions, the Federal budget had a surplus in 1 year a high cumulative deficit over the period, and no balanced budget is in prospect.

Some recent evidence confirms the perception of politicians that voters are more averse to tax increases than to deficits. In this case, one should expect a positive relation between the increase in Federal spending and the proportionate size of the deficit; and Federal spending patterns are consistent with this relation. During the balanced budget period from fiscal 1974 through fiscal 1975, Federal spending increased at an average annual rate of about 8 percent. In the later deficit financing period through fiscal 1976, Federal spending increased at an average annual rate of about 11 percent. The 1975 tax reduction will probably trigger a new round of demands for Federal spending, as did the 1964 tax reduction.

A tax increase, however, by increasing the perceived tax-price of Federal programs, may be a necessary part of a strategy to constrain total Federal spending.

3. The proposed amendment also reflects a critical insight that the problems of controlling the budget are a consequence of the structure of the budget process and the incentives of the many people who contribute to budget decisions.

All of us would like to spend more and tax less and, in the absence of any constraints on the deficit, this is exactly what happens. Under these conditions, conventional budget reforms—such as changes in accounting rules and the information available to the budget makers—are doomed to failure. The enthusiasm for such reforms is quickly transformed by frustration into cynicism. The proposed amendment reflects a recognition that the Federal Government must be bound by some fiscal rule that reflects a broad consensus and cannot be broken by decisions on individual and specific spending and/or tax measures. The recent reform of the congressional budget process, I believe, deserves our best wishes. In the absence of a fiscal rule that binds Congress to its own best intentions, however, I do not expect this reform to achieve effective control of the Federal budget. The spirit is willing, but the flesh is weak.

Senator Curtis and the other sponsors of this proposed amendment have already performed a valuable service by focusing our attention on the problem, and on the importance of a binding fiscal rule. The lesser issues on which there should be debate involve the choice of a specific fiscal rule, and whether it should be in the form of a constitutional or statutory rule.

Senate Joint Resolution 55 in its original form would establish one specific fiscal rule—a balance of the Federal funds budget (which excludes the trust funds)—as an amendment to the Constitution. I regret to say that I cannot support the specific rule that has been proposed, but that is not very important. And, given the lack of any current consensus on a fiscal rule, I do not favor including any rule in the Constitution at this time.

The major problem of choosing a fiscal rule is that the public now expects the Federal Government to use spending and taxation to stimulate the economy. My personal view is that this was, and is, a mistake. My reading of the evidence indicates that Federal spending and taxation have only a small and ephemeral effect on real output. Although there is growing academic support for this position, most of the economic community, the public, and Federal officials, I suspect, still believe the Federal Government should use fiscal policy as an instrument of economic management.

In the absence of a consensus for a balanced budget rule, a proposed amendment to the Constitution embodying the rule is unlikely to be approved and, if approved, would be only "a parchment barrier." A consensus, I believe, must both precede and maintain a provision of the Constitution. At this time, the primary task for those of us who would bind the Federal Government by a fiscal rule must be to inform and to persuade the broader public, and these hearings contribute to that goal.

Moreover, there is real doubt as to what would constitute an optimal fiscal rule. A good case can be made, given the high tax rates on capital income in our present tax code, that the Federal budget should have a substantial surplus in most years. There is no good case that the Federal budget have a surplus in every year, even in the absence of a perceived crisis. This creates a special problem, as it is difficult to design a fiscal rule that would bind the Federal Government over a period of years. In addition, I would oppose a fiscal rule that excluded the Federal trust funds. These trust funds create an illusion of fiscal integrity by accounting mirrors, and any fiscal rule that excluded these funds would divert the pressure for increased Government spending into increasing the level and scope of these trust funds. The largest of these trust funds—the social security fund—is now the most rapidly increasing component of the Federal budget.

I am pleased to note that Senator Curtis has offered an amended version of Senate Joint Resolution 55, that would require a balanced unified budget that includes the trust funds.

What can be done in the near future, given the present consensus that the Federal Government should continue to use spending and tax rates as instruments of economic management? My preference is to include what I earlier called a "marginal balanced budget policy" as part of the reform of the congressional budget process. This policy would be enforced by an automatic tax surcharge that would take effect if the sum of separate congressional actions on spending and

taxation reduced the target surplus (or increased the target deficit), relative to that approved in the initial joint resolution on the budget in each fiscal year. Congress then could choose any fiscal policies that it believes appropriate to the conditions in each fiscal year, but the deficit would no longer be an open-ended and dependent on the sum of the many actions taken over the course of the year.

Several years ago, I outlined the details of this proposal in an American Enterprise Institute publication, "Structural Reform of the Federal Budget Process." A version of this proposal was endorsed by the Joint Study Committee on Budget Control and was included in the budget reform resolution introduced by Senator McClellan, but unfortunately not in the approved legislation. I suggest reconsideration of this proposal as a means to strengthen the congressional budget process.

Some day a new consensus for responsible fiscal policy may arise. And that, I believe, is the time to consider an amendment to the Constitution. My hope is that these hearings will contribute to an educational process that will hasten that day. Thank you.

Senator SCOTT. Thank you, Doctor. As I understand your testimony, on page 3 you say, "The voters are more adverse to tax increases than to deficits." and then, further on, you indicate your regret that you cannot support this specific bill that Senator Curtis introduced and which I cosponsored.

Are you telling us that you feel that somehow the American people must learn that they cannot spend, the Government cannot spend more than it takes in; are you saying that we must have the people of the country behind a fiscally responsible program? I don't want to put words in your mouth, but I want to be sure I understand what you are suggesting be done.

Dr. NISKANEN. I would very much like to see the Federal budget have a substantial surplus in most years. I don't believe there is a good case for insisting that it have a surplus every year.

I think the American public is quite wise about what the Federal Government sooner or later will have to do. But, they also appear to expect the Government to take whatever measures—as during the last year and this year—to help stimulate the economy and this stimulus, of course, carries on for an extended period of time.

These views may very well not be coherent, the view that we ought to have a balanced budget and that we ought to use the budget to stimulate the economy. Both views are present, however, and that is what complicates writing that specific rule in the Constitution.

Senator SCOTT. Let me ask you, are you familiar with the other resolution under consideration, Senate Joint Resolution 93, introduced by Senator Talmadge?

Dr. NISKANEN. No; I heard about that the first time this morning.

Senator SCOTT. Now, as I see—and I have a copy of it before me—it does provide for a balanced budget in two situations, the first being a state of war that has been declared by the Congress; and the second being when the Congress agrees by concurrent resolution that a national economic emergency requires the suspension of the application of section 1 for a fiscal year.

Now, is that somewhat in line with your thinking, or would you feel that you could not endorse that resolution, either?

Dr. NISKANEN. I am not comfortable with any of the rules that have been suggested, or that I have considered, mostly because I have a suspicious mind about the ingenuity of the Congress to get around a constraint.

Congress operated, I think, for 20 years under Korean war emergency legislation, more than a decade after the Korean war was over. I would be concerned about that particular form.

I think it should be clear that I want to be on record as supporting the objective of this resolution, as well as that introduced by Senator Talmadge. I think all of the proposals deserve very serious investigation with respect to their specifics, however, because no one of them is one with which I think we can all be comfortable.

For the first 20 years after World War II the Federal budget was in balance over the period. We accumulated a surplus over that period, and in more years than not we had a surplus; that would be a satisfactory condition in my perspective. It is very hard to write a rule that would prevent a condition. One could write a rule that wouldn't have a deficit in any year, but I think that would be a more constraining rule than would either be accepted, or appropriate.

Senator SCOTT. Thank you, Doctor.

[Prepared statement of William A. Niskanen follows:]

PREPARED STATEMENT OF WILLIAM A. NISKANEN, FORD MOTOR CO.

Senator Fong, members of the Committee, staff, and guests. My name is William A. Niskanen. I am now the chief economist for the Ford Motor Company. May I emphasize, however, that my testimony today reflects only my personal views as a student of government budgeting and as a concerned individual and does not represent a Company position.

I am pleased to have this opportunity to testify concerning Senate Joint Resolution 55. This proposed amendment to the Constitution addresses one of the more important problems of our time and reflects a number of critical insights:

1. A consensus is developing that the federal budget is "out of control". This concern is expressed by the public and by officials in both the administration and Congress. It is manifest in increasing pressure for tax reform and by the important recent changes in the Congressional budget process. The objective basis for this concern is less clear, but probably includes at least the following conditions:

> Since 1965, federal spending has increased at a substantially faster rate than the increase in national output.
>
> Around 80 percent of present federal spending is "uncontrollable" without a change of legislation.
>
> For the first time in American history, total federal spending did not decline after a war.
>
> Although federal officials pay lip service to the desirability of a balanced budget, the federal budget has had a deficit each year since 1969, and recent deficits have reached peacetime record high levels.
>
> Also, for the first time, there is no prospect in the five-year budget planning horizon for a balanced federal budget, unless present programs are reduced and/or tax rates increased.

The increasing amount and share of our economic output that is allocated by the federal government, combined with the pressure of increasing deficits on interest rates and inflation, present a "clear and present danger" to our present well-being, our future economic productivity, the viability of a federal democracy, and our personal liberty.

2. The proposed amendment reflects a critical insight that the rate of growth of federal spending is related to our willingness to finance a growing proportion of the spending by borrowing rather than by taxation.

For most of American history, except during intermittent wars and recessions, the federal budget had a surplus. A fiscal rule that federal spending should normally be slightly less than tax revenues, I contend was part of our implicit

constitution through the early 1960's. For the first 20 years following World War II, a period that included a war and several recessions, the federal budget had a surplus in 11 years and a cumulative surplus over the period. After several decades of assault on the balanced budget rule by the economic community, however, a skeptical President endorsed the "new economics". A tax reduction was approved in 1964, a prosperous year that—maybe not incidentally—was also an election year. The murmur of self-congratulation among economists was enough to disguise the fact that the "new economics" does not suggest a new fiscal rule. Once the nexus between federal spending and tax revenues was broken, no consensus developed on any other rule to constrain the level of spending and the deficit. In the following 11 years through fiscal 1976, a period that also included a war and two recessions, the federal budget had a surplus in one year, a high cumulative deficit over the period, and no balanced budget is in prospect.

Some recent evidence confirms the perception of politicians that voters are more averse to tax increases than to deficits. In this case, one should expect a positive relation between the increase in federal spending and the proportionate size of the deficit, and federal spending patterns are consistent with the relation. During the balanced budget period from fiscal 1947 through fiscal 1965, federal spending increased at an average annual rate of about eight percent. In the later deficit financing period through fiscal 1976, federal spending increased at an average annual rate of about 11 percent. The 1975 tax reductions will probably trigger a new round of demands for federal spending. A tax *increase*, however, by increasing the perceived tax-price of federal programs, may be a necessary part of a strategy to constrain total federal spending.

3. The proposed amendment also reflects a critical insight that the problems of controlling the budget are a consequence of the structure of the budget process and the incentives of the many people who contribute to budget decisions.

All of us would like to spend more and tax less and, in the absence of any constraints on the deficit, this is exactly what happens. In these conditions, conventional budget reforms—such as changes in accounting rules and the information available to the budget makers—are doomed to failure. The enthusiasm for such reforms is quickly transformed by frustration into cynicism. The proposed amendment reflects a recognition that the federal government must be bound by some fiscal rule that reflects a broad consensus and cannot be broken by decisions on specific spending and/or tax measures. The recent reform of the congressional budget process deserves our best wishes. In the absence of a fiscal rule that binds Congress to its own best intentions, however, I do not expect this reform to achieve effective control of the federal budget. The spirit is willing, but the flesh is weak.

Senator Curtis and the other sponsors of this proposed amendment have already performed a valuable service by focusing our attention on this problem and the importance of a binding fiscal rule. The lesser issues on which there is legitimate controversy involve the choice of a fiscal rule and whether it should be in the form of a constitutional or statutory rule. Senate Joint Resolution 55 would establish one specific fiscal rule—a balance of the federal funds budget (which excludes the trust funds)—as an amendment to the Constitution. I regret to say that I cannot support the specific rule that has been proposed. And given the lack of any current consensus on a fiscal rule, I do not favor including any rule in the Constitution.

The major problem of choosing a fiscal rule is that the public now expects the federal government to use spending and taxation to stimulate the economy. My personal view is that this was, and is, a mistake. My reading of the evidence indicates that federal spending and taxation have only a small and ephemeral effect on real output. Although there is growing support for this position, most of the economics community, the public, and federal officials believe the federal government should use fiscal policy as an instrument of economic management. In the absence of a consensus for a balanced budget rule, a proposed amendment to the Constitution embodying the rule is unlikely to be approved and, if approved, would be only "a parchment barrier". A consensus must both *precede* and *maintain* a provision of the Constitution. At this time, the primary task for those of us who would bind the federal government by a fiscal rule must be to inform and persuade the broader public, and these hearings contribute to that goal.

Moreover, there is a real doubt as to what would constitute an optimal fiscal rule. A good case can be made, given the high tax rates on capital income in our present tax code, that the federal budget should have a substantial *surplus* in

most years. There is no good case that the federal budget have a surplus in every year, even in the absence of a perceived crisis. This creates a special problem, as it is difficult to design a fiscal rule that would bind the federal government over a period of years. In addition, I would oppose a fiscal rule that excludes the federal trust funds. These trust funds create an illusion of fiscal integrity by accounting mirrors, and any fiscal rule that excluded these funds would divert the pressure for increased government spending into increasing the level and scope of these trust funds. The largest of these trust funds—the Social Security fund—is now the most rapidly increasing component of the federal budget.

What can be done in the near future, given the present consensus that the federal goverment should continue to use spending and tax rates as instruments of economic management? My preference is to include a "marginal balanced budget policy" as part of the reform of the Congressional budget process. This policy would be enforced by an automatic tax surcharge that would take effect if the sum of separate congressional actions on spending and taxation reduced the target surplus (or increased the target deficit) relative to that approved in the initial joint resolution on the budget for each fiscal year. Congress could choose any fiscal policy that it believes appropriate to the conditions in each fiscal year, but the deficit would no longer be open-ended and dependent on the sum of the many actions taken over the year. Several years ago, I outlined the details of this proposal in an American Enterprise Institute publication, *Structural Reform of the Federal Budget Process*. A version of this proposal was endorsed by the Joint Study Committee on Budget Control and was included in the budget resolution introduced by Senator McClellan but not in the approved legislation. I suggest reconsideration of this proposal as a means to strengthen the congressional budget process.

Some day, a new consensus for a responsible fiscal policy may arise. And that is the time to consider an amendment to the Constitution. My hope is that these hearings will contribute to an educational process that will hasten that day.

Senator SCOTT. I see our colleague Senator Garn, the Senator from Utah is here. Would you please proceed in your own manner, Senator, either by submitting your statement for the record, or by delivering your entire statement; anyway that you are more comfortable.

STATEMENT OF HON. JAKE GARN

Senator GARN. Thank you, Mr. Chairman. What I would like to do is have my prepared statement inserted in the record, and make some comments from my own experience as mayor of a city where we had a balanced budget every year.

Senator SCOTT. Go right ahead, and the entire statement will be included in the record.

Senator GARN. Thank you very much. First of all, I am sure the distinguished Senator from Virginia is well aware of what I am going to say before the record. I think it should be stated what kinds of figures we are dealing with.

I was born in 1932, just prior to the election of Franklin Roosevelt, and he ran a campaign at that time saying that if he were elected President of the United States, that he would reduce the Federal budget from $4 billion a year to $3 billion a year. The reason that I mention that is because this year, as the distinguished Senator knows, we have a budget of $367 billion. And so, during my lifetime, 42 years of my life, we have gone from running this entire country on $4 billion a year to $367 billion a year with not a great increase in population in any comparison to that kind of increase in expenditures.

To go even further to illustrate the problem, just 15 years ago, in 1960, the total Federal budget, Defense, Health, Education, and Welfare, all of the services of the Federal Government was approximately

$76 billion. And I would venture a guess that during this year we will run a deficit in excess of the entire Federal budget of just 15 years ago, the last year of the Eisenhower administration.

I think further we ought to note what really a billion dollars is. As mayor I was getting a budget of $50 million a year, and I thought that was a lot of money; and I had a lot of responsibility to administer $50 million a year. We had budget items of $25, $100, $200, and $300. I have very rarely, since I have become a Senator, heard anything except $1.2 billion. We can't even talk about $1,200,000,000, we talk about points, .01 representing $100 million in the Federal budget.

I don't think too many people comprehend a billion dollars, I'm not sure that I do. A simple illustration, to make it more meaningful. If you had a billion dollars the day Christ was born, and you didn't trust any bank, so you didn't care about interest, you were only interested in the principal, and you started spending it at the rate of $1,000 a day, 7 days a week, 365 days a year, you could have spent that $1,000 for the last 1,975 years, and continue to do it for nearly 1,000 years in the future.

So, we are talking about a Congress who has appropriated $367 billion to be spent from July 1, 1975 to June 30, 1976, and that's at the rate of $367,000 a year and no interest for nearly 3,000 years.

Now, that is the magnitude of the funds we are talking about. We have a national debt in excess of $500 billion. We are paying $1 out of every $10 in Federal income taxes for interest on the national debt, in excess of $45,000 per minute, every minute the clock ticks by. And yet, we are told that is not important, we owe it to ourselves.

Well, sure we owe it to ourselves, and the Banking Committee this year talked about housing, lack of housing; and interest rates are high; and we must subsidize more and more housing.

Well, it's rather interesting, Arthur Burns has a couple of choices when we are going to finance that $78 or $80 billion deficit, he can either print it, or he can go out and borrow it. He can go out and borrow it, and then that is going to compete with the available investment capital in the private sector, and it will be crowded out. And believe me, the crowding out theory does work. And then, what will happen in a year or so, we will find that there isn't enough investment capital left in the private sector to build enough homes; and then we will go back to the Banking Committee and say, "My goodness, we don't have enough housing starts, and the reason is we don't have enough mortgage money around, and the interest rates are too high, they are back to double digits, so we must have an Emergency Housing Act in 1977." We always have an emergency housing act each year. We are going to subsidize interest rates; we are going to borrow more money out of our deficit to provide more home starts without any sensible realization that Congress themselves created the lack of investment capital and stimulated the interest rates to go up.

So, we get back into the vicious circle over and over again.

Mr. Chairman, I'm not any smarter than anyone else as far as foresight, but I would expect that the Congress of the United States ought to have 20–20 hindsight. I do. We can look back to the last 40 years and see what I consider fiscal insanity and irresponsibility; we can continue to spend blindly year after year, after year without any regard to where the money is going to come from. Of course, I real-

ize that helps us buy votes, helps us all to get re-elected when we spend all this money and create all these wonderful "Wizard of Oz" programs, we see the country out there demanding—I haven't seen too much demand—but apparently some Congressmen and Senators think it is there. We can go on creating these cycles of inflation and recession; shortage of capital; high interest rates. We have done it over and over again for 40 years, and we can continue to do it in the name of all the good things that the people in this country supposedly want.

Well, I want to testify to you that the people in my State don't want it. If you will talk to them you will find that they believe in a balanced budget; you will find the constitution of the State of Utah requires the Governor and legislature to balance the budget every year. You will find that a mayor under the constitution of the State must balance his budget. Every June I found it necessary to cut back expenditures, but back all purchases for 1 month except emergencies, so that on the July 1, when the auditors came in we had not inadvertently gone over the budget into a deficit. It wouldn't have mattered if it was $100, $200, or $300, it was a violation of the law.

We had a struggle in that city, it was not easy with inflation to balance the budget every year; but it was either a matter that we cut back expenditures to balance it, or raise taxes; there were two choices.

Now, I see no reason, with the record, if I were sitting here speculating on what would happen, that's something else. But again, hindsight is 20–20, and I think we can easily see what we have done to the economy of this country, how we have ripped off the American people with the worst tax of all, of inflation; how we have subjected the elderly living on fixed incomes to an inadequate standard of living in their later years, those who have worked hard all their lives, who have paid their bills, have not asked for hand outs, and through no fault of their own they are now forced to live on very inadequate income, and not living as they should be able to in their "golden years."

So, that's the way I feel, Mr. Chairman. I see no alternative to solving our economic problems until we get fiscal responsibility in this Congress; until we get Congressmen and Senators who have enough courage to say "no" to some of these programs and recognize that regardless of how desirable they are, that unless we can afford to pay for them, they do damage to the economy, to the savings, to the incomes of the people in this country.

So, I would hope that the people would be given an opportunity to vote on this constitutional amendment. I think it might wake up Congress, I think they might be surprised when they found that the overwhelming majority of the legislatures of this country would improve a constitutional amendment, demanding that we balance our budget if they were given the opportunity by Congress to do so.

Thank you very much.

Senator SCOTT. Thank you, Senator. I understand you are wholeheartedly in favor of this proposal.

Senator GARN. Yes.

Senator SCOTT. I would make just one suggestion, either my staff is wrong, or we are spending $60,000 a minute; that is what my staff tells me. You indicated $45,000.

Senator GARN. I said in excess of 45, so, 60, 65.

Senator SCOTT. Either way, it is a lot of money. Thank you very much.

Senator GARN. Thank you.

[The written statement of Senator Jake Garn is as follows:]

STATEMENT OF JAKE GARN

Mr. Chairman: I appreciate this opportunity to testify on this most important question, at this critical moment in our Nation's economic history. A great deal is being made of the fact that we have survived as a Nation for 200 years, but I am concerned that if something is not done soon to get the Federal budget under control, the future of this country as we know it may be short indeed.

A great deal has been said and will be said about the great shift in disposable income in America from those who produce to those who consume. Figures from Ford Motor Company economists show that there are more people living at the expense of the government than there are people generating the wealth to pay the bills. Studies have been cited showing the lack of investment in our Nation at this time, and the dangers of "crowding out" investment capital by the Federal government in the money markets.

For my part, I will not dwell on these studies, nor spend a lot of time on economic theory. I would simply like to testify within the area of my own knowledge on how people in the State of Utah feel about budget deficits.

And let me tell the members of this subcommittee, the people of Utah do not like them. Perhaps it is because we have made our own way for so long; perhaps it is the pioneer heritage, or the religious tradition which still encourages citizens to live within their means, and to avoid debt. I do not know, and the explanation is not important. The fact is, that the citizens of my State, by an overwhelming majority, want the Federal government to balance its budget.

We receive mail on a great variety of subjects in the office, as I'm sure all Senators do. But no matter what other matters Utahans write about, they are very likely to include a sentence or two urging that the government stop trying to spend us into prosperity.

These citizens are not economists; they don't have fancy econometric models, or computer studies, to factor in all the variables of life. They just know that you can't keep spending more than you take in and expect to stay in business for very long. They know it by common sense, and they know that it is true of government just as it is for business or for individuals.

It doesn't help to tell these individuals that the economy is growing, and that therefore we can stand a larger burden of debt than we used to be able to. They still know that the obligations will come due some day, and that our children and grandchildren will have to pay the price for our irresponsible spending. And they know that means ordinary, middle-income taxpayers will be carrying the brunts of the tax load for the poor and the rich. My constituents know that means taking money from the producers to give to the nonproducers in society. And why do they do it? Because politicians lack the courage to balance the budget. There is no other reason.

As a Utahan put it in a letter to the editor of one of the Salt Lake papers: "It is also dangerous to assume that a national debt is normal and should be permanent. Governments are necessarily given the right to tax to pay for the operation of the government. Properly, the taxes should be only in such amount to cover current operations. Borrowing by private enterprise in contrast to borrowing by the government, is justified on the general principle that it will be invested in a profitable enterprise which will give a return on the investment, including the borrowed money. When money is borrowed to cover current operations the government is postponing the tax to a future year or to a future generation which ultimately will have to pay not only the then current year's operations but the cost of operation for past years and interest on the money borrowed."

This statement shows a good understanding of the reality of government finance, and its sentiment is widely shared by my constituents. They may not be trained economists, but they do know a train out of control when they see one, and they know enough to ask the engineer to apply the brakes. That is what they are doing now, and I am very glad to see these hearings on balancing the budget.

Cities and States must balance their budgets every year and there is no reason why we should not be able to do it at the federal level. The amendment on which we are holding hearings today is a sophisticated instrument which would move

us in that direction. The people of this Nation have listened long enough to promises about budget cuts and reducing Federal spending. As someone said at the Democratic caucus a few weeks ago, its time to start delivering.

Senator SCOTT. Senator Fannin, I believe, is here. If you would go right ahead, Senator, proceed in your own fashion; submit your statement for the record, if you see fit, or deliver it in full, anyway you are most comfortable.

STATEMENT OF HON. PAUL J. FANNIN

Senator FANNIN. Thank you, Mr. Chairman. I would ask that my full statement be made part of the record, and I will somewhat adjust it.

Senator SCOTT. It will be included in the record.

Senator FANNIN. I appreciate very much this opportunity, and I join my fellow co-sponsors of Senate Resolution 55, as well as Senate Joint Resolution 93. I extend my appreciation to you and your colleagues on the committee for holding these hearings. Certainly, the subcommittee has been very patient in staying through the morning and through into the afternoon.

I am here today because I am deeply concerned about the present and future financial integrity of the United States. Mr. Chairman, I had the privilege of serving as Governor of my State of Arizona. As the former mayor of Salt Lake, the distinguished Senator Garn just expressed, Salt Lake City had to balance its budget. We, in Arizona, also have to balance our State budget, and I understand that is true in the great State of Virginia.

We did so by either cutting expenditures, or increasing revenues. We had no other choice. When I first came to Washington I was told, "You can't do things the same on the national level as you do at the State level." I found out that was true, we are spending billions at the national level, and we talk about spending millions at the State level.

I still feel we have the responsibility to do everything in our power to try to keep this great Nation of ours solvent. When we talk about new programs, whether we can afford them, or not, there is too much of the opinion that we can just print more money, and not affect the fiscal responsibility of this country. The distinguished Senator from Virginia knows that this isn't true. Our economy can't stand much more of the wild fiscal irresponsible policies that have emanated out of the Washington area during the last 15 years. The giant spending machine which the legislative and the executive branches have promoted has reached the point of being uncontrollable.

Now, we talk about "uncontrollable" expenditures. But I feel that word, is misused because there isn't anything done as far as expenditures are concerned unless the Congress has approved that particular action. It was some time ago that that was done, but I still feel when we are talking about controls we are not getting our real potential.

During my years in the Senate the Federal budget has increased from almost $117 billion in fiscal year 1965 to a projected $367 billion in fiscal year 1976, an increase of over 200 percent. Despite several good years economically during that period, the Federal Government completed only 1 year with a surplus. As I have pointed out before, while the majority of my colleagues prefers to follow the economic principle of John Maynard Keynes, it is apparent that many in Congress only bought one half, and that is the deficit spending side of this formula.

Mr. Chairman, as you know, the deficit for fiscal year 1976 will be somewhere between $59.9 billion, if you agree with the President; and $68.8 billion if you agree with the Budget Committees of Congress. Next year's deficit could be even larger. I am convinced that our economy cannot absorb these deficits without causing disastrous, long-term problems in the private sector. Again, as I have stated before, this year's so-called "stimulative" budget could easily become an "abortive" budget for the economic recovery.

We have been discussing, in our different committees, the cost of an energy program. We have had reports regarding some new recommendations. One that has just been presented within the last couple of days is another $100 billion to meet our energy challenges. We already have figures developed by different institutions, such as Chase Manhattan, as well as from different committees of the Congress and from different departments of Congress. When you take these figures all together, it appears that the Nation will need about $1.4 trillion within the next 10 years if we are going to meet the energy challenge.

Of course, this money would be raised both by governmental set-asides and free enterprise, the free market side. I hope that we can do more about this on the free market side because, after all, that's where the jobs are provided and where the results are most beneficial. Jobs created through the Government are not productive jobs. And they certainly are very costly.

Our economy needs to expand its capacity before the multitudes of unemployed are back in productive roles. That expansion will not take place if the private sector does not have the necessary financial sources from which to borrow, as was pointed out.

Certainly, there are programs that are very much needed. We vote on programs without a full recognition of the consequences that expenditure will involve. We have spiraling inflation now, and projection indicates it is going to increase. We have a problem as far as the value of the dollar is concerned; we have great deficits in our foreign trade, regardless of some of the good months that we have had. When we take a full year into consideration, or when we take a 5-year period into consideration, it certainly is not encouraging.

The increase of Federal assistance to State and local governments has been nothing short of phenomenal, and there, too are abuses. As a former Governor I can recall getting started on several federally initiated programs, just because there was the incentive from the standpoint of the Federal Government through what they would call practically free money. There is no free money, as we all know, but many of the State legislatures thought, "If the money comes from the Federal Government we don't have to face our own public in accountability." They were fooling themselves. As I recall, some of our programs started on a 5-year period. The first year the Federal Government would assume a 100 percent of the cost; the second year 80 percent, and then right down to 20 percent each year until the State found itself with a program that perhaps was not a priority program, but because they had followed the line of least resistence, getting Federal money, they were stuck with it. So, the great increase in State expenditures has come about, it was shown, from Federal aid. In fact, there were $3 billion of Federal aid in 1955, and $52 billion in 1975. Federal money constituted 18.4 percent of State and local expenditures in 1965; in 1974 that figure rose to 32.4 percent.

I think we must take into consideration just what is being obtained by those dollars. In many instances those dollars have resulted in expenditures at the State level and have placed a further burden on the taxpayers. In fact, Federal spending on State and local governments is but one aspect of the serious problem confronting us. I am convinced that affirmative steps must be taken to bring Federal spending under control.

The new budget procedures are admirable insofar as they go. However, the problem remains that expenditures are not required to meet receipts. That is a matter that was brought out, unfortunately unsuccessfully, to have a balanced budget under our budgetary program at some time in the future. Of course, I favor it being done very rapidly. In fact, I think it is possible, where others think it is not. [But, didn't even reach a goal in that respect that we would have balanced budget under a legislatively controlled program.]

There have been many who have said that it would not be wise to have a balanced budget and we should not work toward a balanced budget. I do not agree with that. I feel that is our great hope, and I feel that we should work toward that end.

We have had several proposed constitutional amendments that have been considered over the years; this isn't anything new. When I first arrived here in Congress, back in 1965, I was cosponsor of a budget-balancing bill. Many had been offered prior to that, dating back to the great Senator Byrd from your State of Virginia, who was one of the first sponsors of such a program.

We have many in the Congress who still feel that a balanced Federal budget should be our goal. And I think when we average out what the voters of this country think, and what the legislators think who have the experience of balancing their own budgets, they would express themselves in the same way.

So, Mr. Chairman, I do commend you for having these hearings, and I want to do anything I can to see that we have a balanced budget for this great country of ours.

Senator SCOTT. Well, Senator Fannin, we appreciate your being here, and we appreciate your contribution to these hearings.

You expressed hope and a degree of confidence in our budget committees that the Congress has just recently created. Would you be of the opinion that we can improve our fiscal situation, and that we can obtain a balanced budget in years to come, without a constitutional amendment? In the absence of a constitutional amendment, do you feel we would continue to have these deficits. Would you express your views on that?

Senator FANNIN. I am encouraged with the Budget Committee activity. But I have been very discouraged that there are so many in the Congress who will not give up certain programs that they feel happen to affect their particular States, or constituency, or their committees.

I think it is going to be very difficult to have a balanced budget unless it is mandated by a vote of the people. So, I feel by doing what we are going to do when we do have a constitutional amendment, that is a mandate by the people and the State legislatures that hopefully will constitute the voice of these people at the State level.

Consequently, I do feel if we are going to achieve a balanced budget program within the near future, or even the foreseeable future, it will take a constitutional amendment.

Senator SCOTT. Thank you, Senator Fannin, we appreciate your being with us.

Senator FANNIN. Thank you, Mr. Chairman.

[The written statement of Senator Paul J. Fannin is as follows:]

Mr. FANNIN. Mr. President, yesterday, I had the privilege of testifying before the Subcommittee on Constitutional Amendments in support of Senate Joint Resolution 55, a proposed constitutional amendment mandating a balanced Federal budget, except in cases of national emergency declared by Congress. My fellow cosponsors of Senate Joint Rsolution 55 and I, appreciate the chairman's scheduling hearings on this vital and timely issue.

I ask unanimous consent that my statement before the subcommittee be printed in the Record.

TESTIMONY OF SENATOR FANNIN BEFORE THE JUDICIARY SUBCOMMITTEE ON CONSTITUTIONAL AMENDMENTS

Mr. Chairman, it is a pleasure for me to have an opportunity to testify today before this distinguished subcommittee, join my fellow cosponsors of S.J. Res. 55 as well as those of S.J. Res. 93 in extending my sincere appreciation for your conducting hearings on this vital issue.

Mr. Chairman, I am here today because I am deeply concerned about the present and future financial integrity of the United States. It is clear to me that our economy cannot stand much more of the wild, fiscally irresponsible policies which have emanated out of Washington during the last fifteen years. The giant spending machine which the Legislative and the Executive branches have promoted has reached the point of being uncontrollable. Political commitments and automatic formula increases have expanded the Federal budget at a truly incredible rate.

During my years in the Senate the Federal budget has increased from almost $117 billion in FY '65 to a projected $367 billion in FY '76, an increase of over two hundred percent. Despite several good years economically during that period the Federal Government completed only one year with a surplus. As I have pointed out before, while the majority of my colleagues profess to follow the economic principles of John Maynard Keynes, it is apparent they have only bought one-half—the deficit spending side.

Mr. Chairman, as you know, the deficit for fiscal year 1976 will be somewhere between $59.9 billion if you agree with the President, and $68.8 billion if you agree with the Budget Committees of Congress. Next year's deficit could be even larger. I am convinced that our economy cannot absorb these deficits without causing disastrous, long term problems in the private sector. Again, as I have stated before, this year's so-called "stimulative" budget could easily become an "abortive" budget for the economic recovery.

Our economy needs to expand its capacity before the multitudes of unemployed are back in productive roles. That expansion will not take place if the private sector does not have the necessary financial sources from which to borrow. Every economic recovery reaches a point where new borrowing is essential. The recovery we are beginning to experience may be short lived if all sources of private borrowing are soaked up by the Federal deficit. Increased capital investment is the best answer to our economic difficulties. Government spending will never qualify as a substitute for investment in the private sector.

Mr. Chairman, I would like to take a few minutes to discuss an aspect of Federal deficit spending which few people consider. That is how State and local governments are affected by Federal deficit spending.

There is no question that the most spectacular growth in American government in the last two decades has been by States and localities. From 1952 to 1972 State and local expenditures increased from $25.2 billion to $164 billion, an increase of 550 percent. During those two decades, State and local debt rose by $145 billion.

Expanded State and local budgets and debts have occurred largely because of stimulation by Federal programs. These programs have resulted from the ease with which the Federal government can incur deficits to provide for new grant-in-aid programs, without facing the difficult task of raising taxes for such programs.

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The increase in Federal assistance to State and local governments has been nothing short of phenomenal. The $3 billion in Federal aid in 1955 grew to $52 billion in 1975. During that same period, grant-in-aid programs increased more than ten-fold from less than 100 to more than 1,000. Federal money constituted 18.4 percent of State and local expenditures in 1965. In 1974 that figure rose to 32.4 percent.

Since such programs require State and local matching funds, State and local budgets and taxes steadily increase. Capital expansion projects cannot be funded from current receipts, thereby resulting in higher State and local debts.

There are additional problems for States and localities created by the recent proliferation of Federal programs. Important among these is the recurring problem that grant-in-aid programs often are funded for narrow programmatic expenditures. This results in States and localities being incapable of spending dollars where the immediate needs may be. Another problem is the lack of adequate planning connected with Federal deficit spending. The ability to spend without restraint often leads to unexpected program money which must be sought immediately by States or lost to someone else. Such haste invariably makes waste.

Mr. Chairman, the effect of Federal spending on State and local governments is but one aspect of the serious problem confronting us. I am convinced that affirmative steps must be taken to bring Federal spending under control. The new budget procedures are admirable insofar as they go. However, the problem remains that expenditures are not required to meet receipts. S.J. Res. 55 proposes a constitutional amendment requiring a balanced budget. Emergency situations may occur which would necessitate deficit spending. The amendments language takes such emergency situations into account by allowing for its suspension by a concurrent resolution agreed to by a roll call vote of three-fourths of all the members of each House of Congress.

I encourage this Committee to take positive and quick action on S.J. Res. 55 so that the full Senate may have an opportunity to debate this issue. It is my hope that the States will soon have an opportunity to act on this proposed amendment. I am confident that the majority of Americans want their government to operate on a sound fiscal policy.

If the average voter's desires are expressed by the Congress and the State legislatures, this amendment will become law.

Thank you.

Senator SCOTT. Mr. Halbrook?

Mr. Halbrook, if you would identify yourself for the record, and then just proceed in your own manner.

Mr. HALBROOK. If I could approach the Chair.

Senator SCOTT. Yes.

Mr. HALBROOK. Mr. Chairman, I have a copy of my testimony and supporting documents, if you want to follow it.

Senator SCOTT. Mr. Halbrook, as I understand it, you do have prepared testimony that you want included in the record; this will be done. And then you have other material that you furnished the committee, a resolution and testimony by others, that will be retained in the committee files, it will not necessarily be a part of the record, we are talking about a printed record. But it will be retained, the other material, for the information of the committee.

If you would proceed now in your own manner, identify yourself for the record.

STATEMENT OF DAVID M. HALBROOK

Mr. HALBROOK. First of all, whenever you meet someone there are always three things that they want to know, who you are, where you are from, and what you do. I am David Halbrook. I am from the heart of the Yazoo-Mississippi Delta, the metropolis of Mississippi, the garden spot of the South, the pride of the Nation, the culture

center of the world, the shining light of the universe, and the golden buckle of the cotton belt.

Senator SCOTT. Second to Virginia, the nicest State of the Union. Go right ahead.

Mr. HALBROOK. One of my ambitions in life is to die in Belzoni, Miss. I am involved in commercial real estate development, farming, and serve in the Mississippi House of Representatives. I like to think I'm a businessman who happens to be engaged in politics.

Following Senator Fannin's remarks here, I might be able to give some personal insights.

For some time the Nation's economy and the Federal budget has been a great concern to me. In August of 1974 my first grandchild was born and I decided to attempt to do something about the Federal mortgage we are placing on his future. Independently of any other State, but with the help of several members of Mississippi's congressional delegation I had drafted a resolution calling for a national constitutional convention.

This resolution proposed an amendment to the Federal Constitution to make the Federal Government live within a balanced budget except in times of emergency and to pay back the present Federal debt within 100 years. It was passed by the Mississippi Legislature in March 1975; and I have given a copy of it to you with these other documents.

Since that time I have made trips to Louisiana, Alabama, Florida, and the Southern Legislative Conference of the Council of State Governments. In addition to these trips, I have corresponded with people in all sections of the country. I have yet to meet with any serious opposition to the concept of a balanced Federal budget. Since Mississippi passed its resolution, resolutions dealing with the same subject have, to my knowledge—and the reason I say "to my knowledge" is because I feel quite certain that my knowledge is not all encompassing, I would be very much surprised if resolutions in other States have not been passed beyond my knowledge—but they have been introduced in Delaware, Louisiana, Maryland, Nebraska, Tennessee, and Texas with promises of introductions from Alabama, Florida, Wyoming, Georgia, Idaho, and several other States. Since this testimony was prepared I have found interest in Virginia, and in Indiana. These resolutions have already passed in Mississippi, Louisiana, Tennessee, Maryland, Nebraska, the Southern Legislative Conference of the Council of State Governments, and the Southern Governors Conference.

I have given you copies of all these resolutions to which I have referred.

Certainly, any concept which has attracted as much enthusiasm and favorable action in such a short period of time deserves the attention that you are giving it. As slowly as the wheels of government turn, if it gets this reaction in this short period of time, particularly when a number of legislatures have not been in session, I think it's deserving.

There are three primary reasons that such a limitation should be placed on the Federal Government. The first of these is the future of our children and grandchildren. Do we want to place an obligation on them which they may never be able to overcome? I certainly

do not think so. That is exactly what we are doing every time we spend money we do not have. There will be a payday some day, and the sad part about it is, our children will be the payors.

The second reason that the concept deserves your consideration is the good of the country. We can pass laws and repeal laws of various sorts every day, but there is one basic law of economics that we cannot change, that is the law of productivity. This country became great because of the total value of its people's production. If you will look at the present-day world you will find two countries who have gained more strength economically in the last 25 years than any other countries. They are West Germany and Japan. How did they do it? They did it through production. At the present time the most reliable sources that I have—and this differs somewhat from the testimony this morning, but it is perhaps more encompassing and include more divisions of government—the most reliable sources that I have indicate that something over 30 percent of our population is involved in government, on either the Federal, State, or local level.

Government is essentially nonproductive in the economic sense. If we can limit or stop, or decrease the proliferation of government and governmental interference in the free enterprise system, then we will begin to return to this basic law of economics which made the country great, the law of production. Money will not take the place of production, but production will bring economic benefit to all.

The third reason that we need to limit Federal spending is for the good of the people today. In recent months we have all felt the ravages of inflation. It has not affected any of us in this room as it has those people on low and fixed income. What purpose does it serve to give a person who is either working or retired a 5- or 8-percent increase in income when inflation is advancing at a rate of 10 or 12 percent a year? This is a cruel farce to perpetrate on these people. If we can get the Federal Government out of the money market, then there will be more capital available for private industry for more jobs, for greater production, and a lower rate of inflation so that the people will not suffer because of the fiscal irresponsibility of their government.

This is a true story. When I was a child, my father took us to Mexico. One thing that impressed me on this trip was the Mexican centavo, the Mexican penny. Most of you have seen them; they are about the size of a 50-cent piece. About 5 years ago I took my children to Mexico and I wanted them to see this "big penny" that had impressed me so much years ago. We never did get one in change and finally I asked the guide, "Ruben, where can I get a centavo to show my children?" He said, "You can't; they aren't any more." I asked him what happened to them. He said, "They weren't good for anything anyway. The people took them, punched holes in them, and made buttons out of them." The currency got in that bad a shape. Are we going to get in the same shape?

I find absolutely no quarrel with the intent of Senate Joint Resolution 55, but I did find some problems in the original version. It is my understanding that Senator Curtis made an amendment which will absorb all of these objections. This testimony was made before I had a chance to see the amendment, and I would like to go through that primarily for philosophical reasons, not as they apply to the amended resolution.

First, I do not believe it is wise to increase the power of the executive branch of Government by placing in the Constitution the requirement that we have an executive budget and a tax rate dictated by the executive branch. This is contrary to the concept that taxes should originate in the House which is the representative of the people.

Second, I do not think that the power involved in setting these tax rates should be given to just two people, the President and the Speaker of the House of Representatives. We need more people involved and a greater diffusion of this power. Remember, the power to tax is the power to destroy.

Third, if the individual members of the legislative branch know that they will not be directly involved in setting a tax rate and source they will not be as responsible as they would be if they knew that they were going to have to find the money that they spent and the place to get it from. For the most responsible Government and to preserve the strength of the legislative branch, we need to have the people who spend the money raise the money.

In all my work on this project throughout the country, I have only had two objections raised. One was from a man who did not feel that the free enterprise system would work any longer. Certainly, I do not share this belief and hope that you do not share it either. We may not return, and it might not be wise to try to return to the true free enterprise system we have had at times in the past, but I do not know of any other type system in history which has worked as well for the Nation and the people.

The other objection that I have received, talking about the concept of a balanced budget and the way to achieve it, at a constitutional convention, has been a fear of the actions of a constitutional convention. This does not bother me because a constitutional convention can do no more than you gentlemen and Congress can do, that is, propose. It will still be up to the State legislatures to ratify any action taken.

At the present time 37 States—this figure and the list of States you have in the package, was developed in our Attorney General's office. Since that time, I have learned today, that there possibly may be two more States, the States of Maryland and South Carolina, which are not noted on this list.

Thirty-seven States require of themselves that they, as States, live within a balanced budget. There have been years in recent history when the Federal Government has had a balanced budget. Certainly, if the States can do it, and if the Federal Government has done it, it is not an impossible task. If you look at the other great nations of both ancient and recent history, you will see that it is a necessity.

I would very much like to thank the chairman, the committee, Senator Curtis and the other people involved, for this opportunity, and I would be pleased to engage in any conversation that you would like.

Senator SCOTT. Mr. Halbrook, it's very nice of you to be here, we appreciate the testimony you have given. The supplement, the various resolutions, will be retained as part of the committee file.

I have no questions that I want to ask you. Thank you very much.

If there is no one else to testify, the committee will stand adjourned.

[Whereupon, at 4:05 p.m., the subcommittee adjourned, subject to the call of the Chair.]

TESTIMONY OF DAVID M. HALBROOK, DISTRICT 16, HOLMES AND HUMPHREYS COUNTIES, MISSISSIPPI HOUSE OF REPRESENTATIVES, BEFORE THE SUBCOMMITTEE ON CONSTITUTIONAL AMENDMENTS OF THE COMMITTEE ON THE JUDICIARY, SEPTEMBER 23, 1975.

Whenever you meet someone there are always three things that they want to know; yho you are, where you are from, and what you do. I am David Halbrook. I am from the heart of the Yazoo-Mississippi Delta, the metropolis of Mississippi, the garden spot of the South, the pride of the nation, the culture center of the world, the shining light of the universe, and the golden buckle on the cotton belt. One of my ambitions in life is to die in Belzoni, Mississippi. I am involved in commercial real estate development, farming and serve in the Mississippi House of Representatives.

For some time the nation's economy and the federal budget has been of great concern to me. In August of 1974 my first grandchild was born and I decided to attempt to do something about the federal mortgage we are placing on his future. Independently of any other state but with the help of several members of Mississippi's congressional delegation I had drafted a resolution calling for a national constitutional convention. This resolution proposed an amendment to the federal constitution to made the federal government live within a balanced budget except in times of emergency and to pay back the present federal debt within 100 years. It was passed by the Mississippi legislature in March, 1975, and I will leave a copy of it with you.

Since that time I have made trips to Louisiana, Alabama, Florida, and the Southern Legislative Conference of the Council of State Governments. In addition to these trips I have corresponded with people in all sections of the country I have yet to meet with any serious opposition to the concept of a balanced federal budget. Since Mississippi passed its resolution, resolutions dealing with the same subject have, to my knowledge, been introduced in Delaware, Louisiana, Maryland, Nebraska, Tennessee and Texas with promises of introductions from Alabama, Florida, Wyoming, Georgia, Idaho and several other states. These resolutions have already passed in Mississippi, Louisiana, Tennessee, Maryland, Nebraska, the Southern Legislative Conference of the Council of State Governments and the Southern Governors Conference. I will leave copies of all of these resolutions with you. Certainly any concept which has attracted as much enthusiasm and favorable action in such a short period of time deserves the attention you gentlemen are giving it.

There are three primary reasons that such a limitation should be placed on the federal government. The first of these is the future of our children and grandchildren. Do we want to place an obligation on them which they may never be able to overcome? I certainly do not think so. That is exactly what we are doing every time we spend money we do not have. There will be a pay day some day.

The second reason that the concept deserves your consideration is the good of the country. We can pass laws and repeal laws of various sorts every day but there is one basic law of economics that we cannot change. That is the law of productivity. This country became great because of the total value of its people's production. If you will look at the present day world you will find two countries who have gained more strength economically in the last 25 years than any other countries. They are West Germany and Japan. How did they do it? They do not have vast resources within their borders as we do. They did it through production. At the present time most reliable sources indicate that something over thirty percent of the population is involved in government at either the federal, state or local level. Government is essentially non-productive in the economic sense. If we can limit or stop or decrease the proliferation of government and governmental interference in the free enterprise system then we will begin to return to the this basic law of economics which made the country great. Money will not take the place of production but production will bring economic benefit to all.

The third reason that we need to limit federal spending is for the good of the people today. In recent months we have all felt the ravages of inflation. It has not affected any of us as it has those people on low and fixed income. What purpose does it serve to give a person who is either working or retired a five or eight per cent increase in income when inflation is advancing at a rate of ten or tweleve per cent a year. This is a cruel farce to perpetrate on these people. If we can get the federal government out of the money market then there will be more capital avalible for private industry, for more jobs, for greater production, and a lower rate of inflation so that the people will not suffer because of the fiscal irresponsibility of their government.

When I was a child my father took us to Mexico. One thing that impressed me on this trip was the Mexican centavo, the Mexican penny. Most of you have seen them; they are about the size of a 50¢ piece. About five years ago I took my children to Mexico and I wanted them to see this "big penny" that had impressed me so much years before. We never did get one in change and finally I asked the guide, "Ruben, where can I get a centavo to show my children?" He said, "You can't, there aren't any more." I asked him what happened to them. He said, "They weren't good for anything anyway. The people took them, punched holes in them, and made buttons out of them."

Are we going to get in the same shape?

I find no quarrel with the intent of Senate Joint Resolution 55 but do think that it has several problems. First, I do not believe it wise to increase the power of the executive branch of government by placing in the constitution the requirement that we have an executive budget and a tax rate dictated by the executive branch. This is contrary to the concept that taxes should originate in the house which is the representative of the people. Second, I do not think that the power involved in setting these tax rates should be given to just two people, the President and the Speaker of the House of Representatives. We need more people involved and a greater diffusion of this power. Remember, the power to tax is the power to destroy.

Third, if the individual members of the legislative branch know that they will not be directly involved in setting a tax rate and source they will not be as responsible as they would be if they knew that they were going to have to find the money that they spent and the place to get it from. For the most responsible government and to preserve the strength of the legislative branch we need to have the people who spend the money raise the money.

In all my work on this project throughout the country I have only had two objections raised. One was from a man who did not feel that the free enterprise system would work. Certainly I do not share this belief and hope that you do not share it either. We may not return, and it might not be wise to return, to the true free enterprise system we have had at times in the past but I do no know of any other type system in history which has worked as well for a nation and its people.

The other objection has been a fear of the actions of a constitutional convention. This does not bother me because a constitutional convention can do no more than you gentlemen can do—propose. It will still be up to the state legislatures to ratify any action taken.

At the present time 37 states require of themselves that they, as states, live within a balanced budget. There have been years in recent history when the federal government has had a balanced budget. Certainly if the states can do it and if the federal government has done it; it is not an impossible task. If you will look at the other great nations of both ancient and recent history you will see that it is a necessity.

STATEMENT BY ROBERT C. BROWN, EXECUTIVE DIRECTOR, TAX FOUNDATION, INC., SUBMITTED TO THE SUBCOMMITTEE ON CONSTITUTIONAL AMENDMENTS, SENATE COMMITTEE ON THE JUDICIARY, OCTOBER 10, 1975

We are pleased to respond to the invitation extended through Senator Carl T. Curtis to comment on his proposed amendment to the Constitution to require the balancing of Federal expenditures and revenues. We regret that prior commitments made it impossible to present this statement at the subcommittee hearings.

Before turning to a discussion of the primary objective of the proposal, we offer these comments as to certain specific provisions of the proposed constitutional amendment.

Under this proposal, as we read it, any excess of Federal outlays over receipts would have to be made up by the imposition of a surtax, i.e., a percentage increase of a taxpayer's regular tax. While it appears that the sponsors of the proposal intended that the Congress have the option of providing the revenues required through other tax actions, or through reductions in budget outlays, the proposed amendment does not appear to spell out these options. It is our view that it would be a mistake to include language which might be interpreted as requiring the imposition of a surtax, and would suggest the subcommittee consider clarification of this provison of the Joint Resolution.

We also have some question as to the proviso permitting the Congress to set aside the requirements of the amendment in periods of national emergency. Clearly some such provision is desirable; but we do not understand the rationale

of the requirement of a three-fourths vote of both Houses of Congress. A two-thirds vote is required to override a Presidential veto. A similar margin is required to suspend the rules and pass legislation in the House. Less than that margin is required to limit debate in the Senate. Additionally, we note both Houses have recently approved legislation which would curb the President's power to declare domestic emergencies, and would permit Congress to end such an emergency by a majority vote of both House. It is our view that something more than a majority vote of both Houses should be required to suspend the balanced budget requirement of the Curtis proposal, but that the requirement of a three-fourths vote of both Houses may be too stringent. We suggest that the subcommittee may find it desirable to give further consideration to this provision of the proposed amendment.

In general, however, the objective of the proposed constitutional amendment appears to be desirable and deserving of the most thoughtful consideration.

It is hardly necessary to recite recent budgetary history. There were only five years in the 25-year span between fiscal years 1950 and 1974 in which the Federal budget was not in deficit. The cumulative net deficit over that period was $141.5 billion. The budget deficit in the fiscal year which ended June 30 was $43.6 billion and forecasts indicate the deficit in the current year will be at least $60 billion and perhaps as much as $75 or $80 billion—thus adding more than $100 billion dollars in additional deficits in just two years.

It was dissatisfaction with that record which, in part at least, finally prompted the Congress to adopt the Congressional Budget and Impoundment Control Act of 1974, establishing a new and promising concept for budget control and determining national budget priorities. In our view, the Constitutional amendment proposed by Senator Curtis is in no way inconsistent with the new budget process which the Congress is now implementing on a trial run basis, and which becomes fully effective next year. Indeed, in one respect this proposal might strengthen the new budget process, and provide additional incentive for the Executive and Congress to apply the stern national budget priorities which the new process envisions.

That process requires the Congress, after setting its initial budget targets and after action on all appropriations and other bills affecting the budget totals has been completed, to approve a final concurrent resolution and a budget reconciliation process which reaffirms or revises the budget totals, including the appropriate surplus or deficit, set forth in the most recently agreed-to concurrent resolution. At that point in the process the Congress will be required to choose among these options: increased taxes, reduced outlays, adjusting the statutory debt limitation to take account of any excess of outlays over revenues, or a combination of these.

The long-sought objective of this new budget procedure, of course, was to require the Congress to look at the budget in its totality, relating expenditures to income and debt. However, the record of the past quarter century indicates that, even in periods of peace and prosperity, the choice which has been made, with but few exceptions, was to finance outlay increases and/or budget deficits through incurrence of additional debt. The one aspect of the new Congressional budget process which many will be watching most closely will be whether, in that final budget reconciliation process, there will be demonstrated the will to adjust outlays to revenue prospects, or to adjust taxes to meet desired expenditures, or whether Congress is to continue the practice of incurring deficits and adding to the public debt. No procedural reforms will cure our budgetary excesses, unless there is a demonstration of that will and discipline by the Congress.

There are legitimate arguments that can be made in support of some sort of basic restriction on the unlimited incurrence of debt, which in effect is a basic purpose of the proposal now before the subcommittee. As members of the subcommittee are aware, many state and local governments do have some form of tax limitations or debt restrictions, the objective of which is to require hard decisions as to program priorities, or at least require that the loosening or breaching of those restrictions is subject to the approval of the voters.

The Federal government has no effective restrictions on taxing powers, and particularly on incurrence of additional debt. This has been a key element in the shifting of Federal-state-local fiscal relationships since the 1930's. As the realization grew among state and local governments, and other groups as well, that there was no really effective limitation upon the incurrence of new Federal debt, they tended to turn more and more to the Federal government for financial assistance in dealing with their problems.

While there are undoubtedly areas where Federal assistance is justifiable and desirable, this trend in intergovernmental fiscal relationships over the past decades undoubtedly has served to alter the balance of our revered Federal system. It is imperative that this shift of power and responsibility away from state-local governments and toward Washington be arrested and reversed. And unless Congress and the Executive, working together, can demonstrate the determination and discipline required to accomplish this, the only recourse may eventually be the imposition of a restriction on the incurrence of new debt such as is contemplated in the pending proposal. The present statutory debt limitation has proven ineffective in controlling either debt or spending increases.

There is much discussion these days about inflation, and the degree to which Federal budget deficits contribute to inflationary pressures. There are those who flatly insist that deficits are the primary cause of inflation. Others, with complex conceptual arguments, on which even economists disagree, contend that Federal deficits are or need not be a contributor to inflationary pressures when properly "managed." The answer is probably somewhere between these two extremes, but it is doubtful that there are many, in or out of the Congress, who would argue that the long string of Federal budget deficits over the past 25 or 30 years has not contributed to some extent to our inflationary and economic problems.

This is one reason why many of those concerned with these problems will be watching with great anticipation the performance and effectiveness of the new Congressional budget process. We believe that, effectively used, these procedures can assist in bringing about a better economic environment. But, as Federal Reserve Board Chairman Arthur Burns recently observed, if they are not used in such a way as to curb the bias toward large size Federal deficits, "there ultimately may be little anyone can do to prevent galloping inflation and social upheaval."

These are our basic arguments for the contention that some such restriction, whether it be the proposed Constitutional amendment now under consideration by the subcommittee, or some other effective restriction, would supplement and complement the new budget process and help to encourage and require the establishment of those national budget priorities which are so necessary to the achievement of fiscal responsibility. We do not beleive that the adoption of such restrictions would destroy or force elimination of necessary and desirable government programs. They might, in fact, be of great assistance to the Congress in combatting waste and inefficiency, and strengthen its hand in efforts to reduce, reform, or terminate low priority programs.

Somehow, sometime, that problem must be confronted by the Congress and this Nation. For these reasons we endorse the objective and principle toward which this proposal is directed.

STATEMENT OF CONGRESSMAN CLAIR W. BURGENER, SUBMITTED FOR THE RECORD IN THE HEARINGS ON S.J. RES. 55 AND S.J. RES. 93, OCTOBER 7, 1975

Mr. Chairman: I appreciate this opportunity to urge this committee to recommend a Constitutional amendment to prohibit deficit spending.

I know you will receive testimony from experts who can give you facts and figures on the scope of our national debt and the effect of that debt on our society. I know you will hear from many sources that will indicate the perils of continued massive deficits.

I hope I can add to this committee's deliberation by giving you the observations of one who served for ten years in a legislature constrained from spending more than it takes in.

The Constitution of the State of California contains the following provision: "The Legislature shall not, in any manner create any debt or debts, liability or liabilities, which shall, singly or in the aggregate with any previous debts or liabilities, exceed the sum of three-hundred thousand dollars ($300,000), except in case of war to repel invasion or suppress insurrection, unless the same shall be authorized . . ." by a law passed by a vote of two-thirds in each House of the Legislature and a majority of the voters in a general election.

This provision has been a part of the State's Constitution since 1879. I believe it has proven to be of benefit to the people of California.

To be sure, it is often quite frustrating for the members of the Legislature. It is always more pleasant to approve costly programs if you don't have to choose what other program must be cut or to face the question of raising taxes.

But the frustration faced by legislators is not the issue before this committee.

The question is whether it would be good public policy to prohibit deficit spending. I am convinced that, legislators comfort notwithstanding, it is *necessary* public policy.

The State of California has managed to finance some of the most far reaching and innovative governmental programs in the nation while holding to the line on balancing its budget. The state has operated under this provision during times of "liberal" administrations and "conservative" administrations. The requirement of a balanced budget has not been the determining factor in the philosophy of government. It *has* been the determining factor against encumbering future generations with the cost of services for the current population.

As a member of the California State Assembly from 1963 to 1967 and the California State Senate from 1967 to 1973, I had the opportunity to work under this prohibition. In the State Senate I had the privilege of serving on the Finance Committee which is roughly equivalent to our committees on appropriations.

During these years I saw what the effect of such a provision is. I want this committee to know that the primary effect was to *force* us to evaluate programs in terms of total resources. We were *required* to ask "Is this the best use for the taxpayers' money?" instead of "Is this program worthwhile on its face?"

The difference between asking the one question and the other is the difference between service in the state legislature and service here in the Congress. Here in Washington there is precious little opportunity to balance one expenditure against another. There are few occasions when we, as Members of Congress, ask if we prefer a bomber to a hospital—a health program to a bicentennial program—a postal subsidy to a national park. Instead, we ask if each of these things are desirable on their own merits.

Mr. Chairman, after 10 years in the California Legislature, I cannot think of one essential appropriation which could not be made because of the requirement of a balanced budget. I cannot think of one essential program which could not be undertaken because of this requirement. I can, however, think of many items which had to be foregone or postponed *until we could afford them.* I can think of some desirable things which could not be done *because we could not afford them.*

It seems to me that we at the Federal level cannot continue to do those things which the taxpayers really cannot afford. We have become all too used to the process of deficit financing where we spend future funds for current services. This is the same as saying "We can't afford this so we will charge it to future generations". What will happen when future generations cannot afford even to pay the interest on those things we charged to them?

This government cannot continue to purchase everything that is worth having. If we do, we will saddle this generation and future generations with bills which will be insupportable. We will end up not being able to "buy" anything. This is the danger of continued massive deficits.

Many have raised the objection that there are emergency conditions which might require a deficit. Many point to the experience of World War II where the ability of this government to go deeply into debt provided the ability to defeat a ruthless enemy.

If this committee finds this to be a valid objection, and I think it may be, that contingency can be provided for in the text of an amendment. It might allow deficits during periods of declared war or national emergency declared by a majority or specified plurality of the Congress.

But it has proven to be insufficient simply to hope for fiscal integrity. The temptation to spend and the dread of increasing taxes have combined time and again to result in massive deficits even when the representatives of the people are the very ones who, as candidates, pledged support for a balanced budget.

I do not say that these candidates were intentionally misleading their constituents. After all, no single vote is taken on spending about revenue. Instead, it is the accumulation of separate acts which results in the deficit. We have tried through the budget reform measures of recent years, to tie all of this together. But the fact remains that the debates over budget resolutions have revolved around how much our deficit should be . . . not over whether we should operate in the red or the black.

Mr. Chairman, so long as the decisions of this government are made by mere human beings the temptation to spend more than is received will remain stronger than the will to resist. Sure, Members of Congress are weak . . . weakness is a human frailty and legislators are human. They need, and the country needs, the strength of a Constitutional prohibition against deficit spending.

BALANCING THE BUDGET

TUESDAY, OCTOBER 7, 1975

U.S. SENATE,
SUBCOMMITTEE ON CONSTITUTIONAL AMENDMENTS,
COMMITTEE ON THE JUDICIARY,
Washington, D.C.

The subcommittee met, pursuant to notice, at 10:08 a.m., in room 2221, Dirksen Senate Office Building, Senator Strom Thurmond presiding.

Present: Senator Thurmond (presiding).

Also present: Senator Carl T. Curtis; David M. Rubenstein, chief counsel; Marilyn R. Berning, assistant chief clerk.

Senator THURMOND. The subcommittee will come to order.

Ladies and gentlemen, we are holding this hearing on Senate joint Resolution 55 and Senate Joint Resolution 93. Senate Joint Resolution 55 was introduced on March 12, 1975 by Senator Curtis, who sits here at my right, and co-sponsored by Senators Hruska, Fannin, Garn, Goldwater, Laxalt, McClure, Scott of Virginia, and Thurmond. This is a pay-as-you-go.

Senate Joint Resolution 93 was introduced on June 10, 1975 by Senator Talmadge and co-sponsored by Senators Helms, Nunn, and Thurmond. This is a different approach to the same goal of a balanced budget.

A copy of Senate Joint Resolution 55 and Senate Joint Resolution 93 will be incorporated in the hearing record at this point—that has been done at a previous hearing, so we will just omit it.

Senator Curtis, the chief sponsor here of Senate Joint Resolution 55, is with us. I would be very pleased to have him make any remarks as he will at this time.

Senator CURTIS. Mr. President, I made a statement in our first day of hearings on September 23. I shall not take time at this point in the record.

I do want to express my thanks to the witnesses who are here. Some of them have plane schedules to meet, so I believe we should move right along. I do want them to know that I appreciate it very much.

Also, Mr. Chairman, I have statements from several Senators, Governors, and others, supporting this proposal. And some of them are on the way also. I ask leave to insert in the record various statements of support of this proposal.

Senator THURMOND. Without objection, that will be done.

[The documents referred to follow:]

Senator CURTIS. And also, Mr. Chairman, I ask leave that we have the record stay open for such time as is customary for further statements.

Senator THURMOND. I think that is a good idea.
Without objection, that will be done.
[The documents referred to follow:]
Senator CURTIS. And now, Mr. Chairman, I think we should proceed with our first witness.
Senator THURMOND. Senator Hruska is not here, so we will proceed.
I believe Dr. Lowell Harriss has to get back to his class at Columbia.
Dr. Harriss, will you come around? We would be pleased to hear from you at this time.

STATEMENT OF DR. LOWELL HARRISS, PROFESSOR OF ECONOMICS, COLUMBIA UNIVERSITY

Dr. HARRISS. Thank you, Senators.
I am C. Lowell Harriss, professor of economics, Columbia University, and economic consultant for the Tax Foundation, Inc. The views expressed, of course, are my own, and not necessarily those of any organization with which I am associated.
I have prepared a statement, of which copies are available, I shall summarize it orally.
Senator THURMOND. Without objection, now we will put your entire statement in the record.
Dr. HARRISS. Thank you, Senator.
Senator THURMOND. And then leave you to freewheel and just summarize or bring out any highlights you wish to. I think in that way, we will get more out of you. We can pick your brains better.
Dr. HARRISS. Thank you very much.
[The prepared statement of Lowell Harriss follows:]

TESTIMONY OF C. LOWELL HARRISS,[1] PROFESSOR OF ECONOMICS, COLUMBIA UNIVERSITY, AND ECONOMIC CONSULTANT, TAX FOUNDATION, INC., ON SENATE JOINT RESOLUTION 55: PROPOSED AMENDMENT TO THE CONSTITUTION

It is, of course, a privilege to comment on the proposed Constitutional amendment. Goals of high importance are involved. Several elements need to be considered in attempting to evaluate the proposal as a whole. The order in which I comment on those which I shall discuss does not necessarily indicate my view of their relative importance.

1. The desirability of limiting the enlargement of Federal spending seems to me clear. The present hearings, however, are not the occasion to discuss my reasons for endorsing firm efforts to keep the governmental (the politically determined) portion of American life from expanding. Federal spending has already risen to heights few Americans can comprehend. Amounts at anything approximating the present percentage of total output of the economy must offer ample scope for doing everything which can really be done better through political processes than through private actions in markets and by philanthropy. Yet some circles, as you know, while, on the one hand, criticizing the actual functioning of bureaucracy and politics will, on the other hand, turn to "more government" (spending) when problems persist. Big—and bigger—government have results for human life which hamper rather than enlarge liberty and the opportunities for creative use of human potential.

2. The requirement that all non-trust-fund spending be paid for currently by taxation would act as a restraint on the increase in spending. No one, I believe, can predict accurately the restraining force of such an innovation.[2]

Nevertheless, does not logic seem unquestionably to lead to a conclusion that behavior would be changed by ending of the "free lunch," "something for noth-

[1] Views expressed are my own and not necessarily those of any organization with which I am associated.
[2] Although state and local governments must quite generally present balanced budgets, reliable precedents are not easily inferred. No matter how stringent the rules for such

ing," "the other fellow will pay—later" aspect of Federal finances? I think so. As a result there would be some reduction in the expansion of Federal activity.[3]

3. Bringing the realities of costs into sharper focus, more nearly requiring decisions on spending to be tied to decisions on getting the dollars by taxes (as against borrowing or inflation), ought to *improve resource allocation* as economists view it. Efficiency in the running of our collective affairs should be higher when costs are brought home to members of Congress and voters.

4. Except for the emergency provisions, the plan would eliminate one source of inflation.

First, however, let me note that Federal budget deficits need not be inflationary. Even when productive capacity is to all intents and purposes being used fully, a deficit *can* be financed without contributing to an increase in the stock of money; the money creation which underlies inflation can be avoided. The method is to finance a Federal deficit by drawing upon private savings—"crowding out" other demands for borrowed funds (presumably demands to finance business investment, housing, or state-local projects). But especially when booming business (and fears of inflation) have brought "high" interest rates the pressures to use the money-creating process—"accommodation" by the Federal Reserve—can be powerful. The Federal Reserve has yielded in the past and will be under pressure to do so again. In times of boom—when productive capacity is being used so fully that bottlenecks are limiting increases in output—there will, in the short run, seem to be advantages of easing the financing of a Federal deficit by supplying new bank credit (money). At any time new money can be injected, easing someone's problems: short-run interest rates can probably be reduced—for a time. But as the funds thus created add to the flows through the economy, the accumulated results through later months will differ from those initially.

Budget deficits generally *do* invite the creation of money, and monetary expansion does lie at the base of inflation. This is not the occasion to try to discuss the causes, and the causes of the causes, of inflation. But Federal deficits unquestionably do tempt the use of money creation as a means of getting dollars for the Treasury without evident pain. Economic arguments for such methods of financing a deficit can be cited in seeming justification more often than the realities justify. At any time there with be some productive capacity unutilized; some apparent expansion of output may be "theoretically" possible, output which if it were to occur might offset the general effects of an increased flow of money payments so that the price level need not rise. The practical question, of course, is whether or not in fact the new funds will be directed so that they do in fact call into existence new goods and services (produced by labor and other capacity that would be idle) rather than bidding up the prices of others. Unfortunately, however, long before essentially all resources are used "fully," bottlenecks and shortages appear. Wage rates and prices will rise in some sectors.

Enough experience has been accumulated, it seems to me, to convince us that inflation is treacherous, insidious, and clearly against the interest of the vast majority of Americans. Price-level stability should be high indeed in our scale of priorities. Supporters of the proposed amendment as a means of serving the public have a stronger case than is likely to be recognized. Americans can wisely pay a price for the elimination of one cause of inflation.

5. Perhaps the biggest price would be a reduction of the built-in stabilizing power of Federal finances. Most economists, it is safe to say, would deplore the removal of what has come to be held as a feature of strength—the automatic stabilizing effect of Federal deficits when the economy turns downward.

The process as commonly described consists of the financing of Federal spending at the level prevailing (or with some rise) while revenues drop off. The deficit (or increase in the deficit) injects funds (about tax receipts) into the stream of money payments. These "new" dollars can go for consumption or investment. Without need of Congressional, or any deliberate administrative, action—without the problems of prediction and policy formation and without the delays inevitable in changing course—Federal finances now provide an

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financial balancing may appear "on paper," ways of circumventing them can often be found. The states and their thousands of localities operate under conditions which vary greatly. Moreover, the differences between Federal and state-local finances are great indeed. Yet study which I have not been able to do might suggest helpful thoughts for your consideration.

[3] Under the proposed system, however, the increases in taxes called for from one year to the next might be modest. As one recalls the public acceptance of rising payroll taxes for Social Security, one must be cautious in predictions of popular resistance to small and somewhat automatic tax increases.

offset to a decline in the general levels of business, assuming, of course, appropriate monetary policy by the Federal Reserve.

For years I have supported the conclusion that automatic stabilizers are welcome. I continue to believe that they have merits not to be given up lightly. Yet the whole matter of fiscal-monetary policy for economic stabilization has more complexities than typically assumed. The causes of declines in the general level of economic activity are not so clear and simple as sometimes assumed.[4]

The proposal would not preclude some of the automatic stabilizing in the short run—for example ,deficits not foreseen. And for more persisting shortfalls, of the economy, the emergency provisions could come into play. Yet the Congressional majority required might be so large that prompt action could not be counted upon. Could not monetary policy really do the job? Most economists would answer, "no." But I am more inclined to look optimistically on the possibility; admittedly, the record must cause one to be cautious about the actual workings of monetary policy.

The concern of economists, I believe, has been dominated by a belief that the private economy is essentially more unstable than the governmental or, to be more exact, that instabilities in governmental finances will exist but in directions that helpfully offset undesirable elements in the private. Such "conventional wisdom," however, needs reexamination.

Perhaps the inflationary aspects of Federal deficits do themselves causes some of the distortions which in turn help to bring about recessions. Possible trade-offs involved in the plan before you—help in preventing inflation on the one hand and some loss of assured automatic stabilizing against recession on the other—call for forthright analysis.

6. When deficits appear, my personal preference for "remedial" or corrective action would undoubtedly be reductions on the spending side more often than increases in taxes. If there is choice between more freedom for Americans to use their resources in the private capacities as against collective action in the form of bigger political sphere, my preference would be for private action rather than for political. But across-the-board or other forms of Constitutionally mandated reductions in (the growth of) Federal spending would be exceedingly difficult, probably impossible.

7. The proposal would apparently preclude the deliberate use of Federal finances as a means of saving. Budget surpluses to retard Federal debt could provide funds which former bondholders could then make available for private capital formation. Remote as such a possibility seems now, its potential economic merits should not be ruled out—or given up by inadvertence.

8. A final point overlaps others. With our present knowledge about economic and political processes, can we devise a rule for the Constitution whose results can be forecast with enough accuracy to permit responsible judgment? Changing the Constitution is a serious matter. Once something gets embodied, modification is at best slow and perhaps impossible. Some results would be surprises. Perhaps the new budgetary process in the Congress will in fact be successful enough to reduce materially the need for the controls provided in the Joint Resolution. The economy changes in ways not foreseen. Further serious discussion can help us decide with more assurance than I feel now about the desirability of pressing the proposal in its present form or with possible modifications.

Dr. Harriss. The desirability of limiting the growth of Federal spending seems to me clear. This is not the occasion to try to summarize all of the reasons for opposing the continued expansion of the role of the political processes in American life. But the growth has already been far greater than almost anyone appreciates.

The increase has been possible, in part, because of the tolerance of budget deficits, large budget deficits. Looking to the future of American life, the good society as I see it, we must seize upon ways to restrain the expansion of the politically dominated elements of economic life.

Over the foreseeable future it seems to me, taxes will provide enough revenue to finance all activities which can be done better in the governmental sector than in the private sector.

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[4] The budget surpluses once envisaged as a part of the automatic-stabilizing process have not been much in evidence as aids in preventing inflation.

We do not know just how this amendment might, in fact, restrain the growth of spending. Nevertheless, the ending of the "free lunch" notion, the ending of the belief that other people will pay, but later, as supporting of Federal spending—such changes of views, it seems to me, would inevitably limit the expansion of the total of government spending. This restraint would not only lead to a better society but would also bring into sharper focus the relationships of the worth of spending to the worth of the costs and, in the terminology of economics, lead to a better allocation of resources, in the sense that people's choices would be more closely related to the benefits they can foresee from what they will have to pay.

A major benefit from the proposal, it would be the elimination of one source of inflation. Budget deficits do not have to be inflationary. In my statement, I indicate very briefly the reasons why a budget deficit can be financed without inflationary results. Doing so requires taking savings from the private sector rather than resorting to the money-creating mechanism—politically, it seems a very difficult thing to do when economists favoring stimulation point out that the economy has some unutilized productive capacity, and at almost any moment there is some unutilized productive capacity. Unfortunately, the economy begins to run into bottlenecks long before resources are fully utilized. Under such conditions, budget deficits financed by money creation directly or indirectly will contribute to inflation.

Enough experience has accumulated to convince us that inflation is treacherous. It is insidious and clearly against the interest of the vast majority of Americans. So price-level stability is an objective that is worth paying a high price to achieve.

Perhaps the biggest element of price in the proposal would be the reduction or almost the elimination—of built-in stabilizers.

The operations of built-in or automatic stabilizers I am sure is familiar to you. The Federal Government continues a level of spending even though tax receipts decline, so that the injection of new funds into the economy through the governmental process increases.

For years I have supported the conclusion that automatic stabilizers are welcome, I continue to support that position. At least, I believe that there is enough merit in this element of our fiscal and monetary system to require great caution in trying to give it up. If the subcommittee has time later on in the discussions of this proposal, more attention might be given to this aspect.

One of the major questions would be whether or not monetary policy could, in fact, do the job which we now seek from automatic stabilizers. The vast majority of economists will quite quickly say, "no." I am not so sure that monetary policy cannot give the stabilizing effects that are attainable, but I cannot be dogmatic on this. The issues are certainly worth further study.

My personal preference would be, if there is some choice between higher taxes and lower spending as the element to be changed, would be for reductions in the growth of spending rather than increased taxes. I realize, however, the practical difficulties of this alternative.

Another topic worth consideration is that amendment, as I understand it, would preclude budget surpluses, except by accident. Budget surpluses, of course, have not been very much in evidence in recent years. I do not know whether or not surpluses would, in fact, ever be

usable as methods of saving in the economy. But such conditions might be desirable.

Finally, any change in the Constitution is a major matter. To devise a fiscal rule to insert in the Constitution is a very serious matter. Is there enough public consensus to support the rule? What would be the possible or the probable conditions that might arise later? With such questions as yet unanswered—to my satisfaction.

I urge that we continue to think about the matter before absolutely settling upon any particular rule, desirable as the objectives are.

Thank you.

Senator THURMOND. Thank you very much, Dr. Harriss.

Do you have some questions, Senator Curtis?

Senator CURTIS. Dr. Harriss, do you look for deficits in the neighborhood or beyond what we are experiencing now to continue unless something rather emphatic and effective action is applied?

Dr. HARRISS. I am afraid so, Senator. With substantial economic recovery, of course, tax receipts would rise and the deficits, presumably, would go down. But the pressures to increase spending seem to me accelerating rather than being reduced.

Senator CURTIS. Do you feel that a constitutional provision requiring a balanced budget would be a force in compelling the Congress to decide on priorities, what expenditures are really important, and what ones are not absolutely?

Dr. HARRISS. Yes, unquestionably yes.

Another result, however, would probably be a search for a greater use of off-budget financing. But there would be pressures on all of those who advocate increased spending to restrain themselves.

Senator CURTIS. Do you regard present deficits as a serious threat to our country?

Dr. HARRISS. Yes, I think so. One must interpret this cautiously, and the term "serious" is difficult to define.

Senator CURTIS. I understand.

Dr. HARRISS. But the deficits are too large. They lead to an expansion of the governmental sector in ways for which I do not see government as the most effective means for human beings to use their energies and talents and resources beyond some point, a point which I think we have passed.

Senator CURTIS. And is it not true that big spending begets more spending?

Dr. HARRISS. It seems to, Senator.

Senator CURTIS. Because the increase in the deficits of the last decade, 1965 to 1975, has clearly proven that.

Dr. HARRISS. Yes.

Senator CURTIS. That is all I have, Mr. Chairman.

Senator THURMOND. Thank you.

Thank you, Senator Curtis.

Now, I know that you have found automatic stabilizers, I believe, in Federal spending desirable to some extent.

Can we really afford to use Federal spending as a method to get us out of our economic crises, or is there some preferable avenue, other than that?

Dr. HARRISS. The responsible response, Senator, I think, is that monetary policy might be a more successful instrument than it has been. The mechanism by which automatic stabilizers operate includes

a big element of monetary policy—that is, the way in which the changes in government finances are financed. That is a crucial element in the total picture. And I think that monetary policy can achieve at least a considerable portion of the total result which is attainable without the change in the Federal deficit, but other economists would disagree with me on this.

But let me be quite clear, in a perhaps more direct response to your question. The rise in spending is not needed; it is the decline in revenues in the automatic stabilizers that I think can give whatever results are obtainable as automatic stabilizers.

Senator THURMOND. Thank you.

Senator CURTIS. Thank you very much.

Senator THURMOND. Thank you very much for your appearance here. We appreciate your coming to testify.

Dr. HARRISS. Thank you.

Senator THURMOND. Senator Hruska, you were not here in the beginning, so we took Dr. Harriss. I understand you are leaving town, so we will take you now.

If you want to read your entire statement, do it, or if you want to just put it in the record and make some comments on the cuff, feel free to follow that procedure.

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Causes and Effects of Inflation

C. LOWELL HARRISS

APS

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Causes and Effects of Inflation

C. LOWELL HARRISS

Through the broad sweep of history, units of money have always lost purchasing power—not in every decade or generation, but eventually. In other words, *inflation* in the sense of a *rise in the general level of prices* has occurred time and again, all over the world. Inflation deals *not* with *particular* prices or the relations among prices but with the *general price level*, a drop in the purchasing power of the dollar. The general price level goes up when money demand rises more than the goods and services available for buying. Money demand goes up when the quantity of money rises or when velocity, the rate of turnover, rises—or some combination of the two.

Today's problems in this country are not something new. Yet there *are* new elements. Two of these must shock the thoughtful observer. One is the failure to learn from the past and to take preventive action. A second is an apparent resignation to additional inflation in the years ahead, perhaps indefinitely. Expectations of continuing inflation, as Professor Fabricant and other contributors to this volume can help one see, are not merely passive responses. They become causal forces. Members of the public—as savers and investors, as managers of businesses and leaders of labor unions, and as consumers—try to alter behavior on the basis of guesses about price-level changes.

Man makes inflation—and suffers from it. How does he make it? How does he, and how will his children, suffer? What are the varied effects? How might this country move from the current situation, which contrasts sharply with most of American history, to conditions that would

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Tables 1–9 were prepared at the Tax Foundation, Inc., under the direction of Dr. Elsie Watters.

resemble those long considered normal? Questions such as these prompted this volume.

The Record of Price-Level Changes

To help set the stage, table 1 shows two measures of prices and of changes from 1930 to mid-1974. No single price index can be fully satisfactory.

TABLE 1

Indexes of Prices and the Purchasing Power of the Dollar for Selected Calendar Years, 1930–74

Year	*Wholesale Prices (1967=100)*	*Consumer Prices (1967=100)*	*Purchasing Power of the Dollar (1967=$1.00)*
1930	44.6	50.0	2.00
1935	41.3	41.1	2.43
1940	40.5	42.0	2.38
1945	54.6	53.9	1.86
1950	81.8	72.1	1.39
1955	87.8	80.2	1.25
1960	94.9	88.7	1.13
1965	96.6	94.5	1.06
1970	110.4	116.3	.86
1971	113.9	121.3	.82
1972	119.1	125.3	.80
1973	134.7	133.1	.75
1974[a]	159.0	147.8	.68

Source: U.S. Department of Labor, Bureau of Labor Statistics.
[a]Estimated; based on price changes for first six months.

Measurement of *the* price level presents formidable problems when each household buys hundreds or thousands of varied commodities and services in a year—and no two families use exactly the same "market basket." All consumers alter their combinations of purchases from year to year, in part because of changes in relations among prices. Moreover, the characteristics and qualities of tangible goods and intangible services change; there are vast improvements in some and deterioration in others. Experts cannot be confident about the adequacy with which adjustments allow for quality changes in computing the price indexes.

The figures show that with 1967 as the base—100—consumer prices went from around 72 in 1950 (the Korean war) to 80 in the mid-1950s and to nearly 95 when Vietnam war expenditures began to become substantial in 1965. That ten-year increase seems small indeed compared

TABLE 2

Indexes of Consumer Prices by Selected Expenditure Classes for Selected Calendar Years, 1929–73

(1967=100)

Period	All Items	Food	Rent	Home Ownership	Fuel Oil and Coal	Gas and Electricity	Apparel and Upkeep	Trans-portation	Medical Care	Personal Care
1941	44.1	38.4	57.2	—	40.5	81.4	44.8	44.2	37.0	41.2
1945	53.9	50.7	58.8	—	48.0	79.6	61.5	47.8	42.1	55.1
1960	88.7	88.0	91.7	86.3	89.2	98.6	89.6	89.6	79.1	90.1
1965	94.5	94.4	96.9	92.7	94.6	99.4	93.7	95.9	89.5	95.2
1967	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0
1970	116.3	114.9	110.1	128.5	110.1	107.3	116.1	112.7	120.6	113.2
1972	125.3	123.5	119.2	140.1	118.5	120.5	122.3	119.9	132.5	119.8

Source: U.S. Department of Labor, Bureau of Labor Statistics.

with recent rates of rise. The 1973-74 estimated increase—in one year alone—is almost as great as the 15 points in ten years. The same data examined from the opposite point of view, not prices but what the dollar will buy, reveal that from 1967 to 1974 the dollar dropped almost one third, to 68 cents.

Table 2 shows more details of consumer prices for a few selected years. Obviously, some elements have risen much more than others. Table 3

TABLE 3

Implicit Price Deflators for Gross National Product and Selected Components

Selected Calendar Years, 1929–73

(index numbers for 1958 = 100)

			Gross Private Domestic Investment		
Year	Gross National Product	Personal Consumption Expenditures	Nonresidential Structures and Producers' Goods	Residential Structures	Government Purchases of Goods and Services
1930	49.3	53.6	38.1	37.1	37.9
1935	42.6	44.4	35.9	29.8	37.0
1940	43.9	45.5	40.0	36.9	38.5
1945	59.7	65.4	51.0	54.9	52.6
1950	80.2	82.9	74.4	82.5	71.8
1955	90.9	92.8	86.7	92.9	87.1
1960	103.3	102.9	102.9	104.5	105.0
1965	110.9	108.8	107.5	114.2	119.4
1970	135.2	129.3	130.2	140.2	157.6
1971	141.4	134.4	136.3	147.4	168.1
1972	146.1	138.2	139.6	157.4	178.6
1973	154.3	145.9	144.9	174.0	191.5

Source: U.S. Department of Commerce, Bureau of Economic Analysis.

enables one to compare some of the major elements of the gross national product. (In this case, 1958 is the base year of 100.) The prices paid by businesses for factory and other buildings and machinery have gone up at about the same rate as consumer items. But prices paid for new housing and for government have risen by considerably larger amounts.

The effects of such changes are distorting, disrupting, and pervasive, far more so than is generally recognized. No one mind can possibly know much about more than a rather small fraction of the total effects of double-digit inflation, 10 percent a year or more. Four essays in this volume deal with the effects. Professor Peterson shows some of the many ways in which business operations are influenced. The reader can get some conception of the difficulties added to the management of com-

panies on which Americans depend for most of their income, the goods and services they consume, and the taxes to pay for government. The full costs in loss of efficiency cannot possibly be measured, but they burden everyone regardless of his awareness.

By failing to adjust taxes for inflation, the tax system hurts business in ways never intended. The laws tax "phantom profits" as if they were real—quite generally at rates around 50 percent (and higher where state taxes are above average). The government still requires the use of original cost in figuring the amounts deductible as depreciation expense. Obviously, however, recovering the same number of dollars as invested in the past will not replace the productive capacity.

It is not only in the supermarket that the dollar has lost buying power. The machinery and equipment element of the wholesale price index in the summer of 1974 was 55 percent above that of 1964 and 35 percent above 1969. For structures, the rise was 77 percent.

Although Congress has never said, "Let us tax some of the return of capital as if it were net earnings," the laws do so. Business practice itself, as well as principles still acceptable to the accounting profession, condone the use of obsolete cost figures for nontax purposes. Such failures do not bind government. *It* controls tax policy, and it can make reforms. In times of inflation what the tax law defines as "income" is not limited to the true *earnings* of capital. Some of the *capital itself* gets taken by the tax net. "We" have been forced to send to government, in the form of tax on earnings, funds that in a basic economic sense are costs. In government spending, Americans consume capital without realizing the fact.

Two essays deal at somewhat greater length with particular industries, each highly important to everyone. Dr. O'Leary from his experiences at the very center of national finances paints a starkly realistic and highly disturbing picture. The effects of large inflation profoundly threaten the working of financial markets as they have been developed over the decades. The typical American has little opportunity to learn the importance of capital markets. Yet they affect, not only his ability to finance a house, automobile, or other purchases on reasonable terms. The world of finance also affects the modernization and expansion of production facilities for jobs, the introduction of new and improved goods and services, and local and state government capital projects.

The essay by Dr. Manus on the effects of inflation on public utilities tells another disturbing story. Suppliers of communications, electrical, and other services of utmost importance to consumers—and to business as producers—face new difficulties because inflation raises costs to utilities whose rates are regulated under procedures which have been built to operate on the implicit assumption of a stable dollar. Moreover, inflation raises the interest costs and complicates the problems of raising

the new capital that will be needed in huge amounts to supply a growing population which expects better levels of living.

Professor Bach draws upon his detailed study that has extended over many years to measure some of the effects of inflation. One of the most widely recognized conclusions about inflation is that not everyone is affected in roughly the same proportion or even the same direction. The recent work summarized here gives insights into how much the different sectors of the economy have been benefited or hurt.

Inflation increases the "tax take" of government, not only because "phantom profits" are taxed as if real, but also because graduated personal income tax rates take increasingly larger fractions of income as dollar incomes go up. Even though some of the rise in money income reflects merely an offset to loss of purchasing power of the dollar, progressive rates absorb larger, rather than stable, proportions. The personal exemption is fixed in the dollar amount, $750 at present; the law, therefore, taxes all increases in income of persons subject to tax.

The speed with which dollars move into brackets subject to higher rates depends upon the width of brackets. In the income ranges where the vast majority of Americans experience changes in income, brackets are "narrow" rather than "wide"—four of $500 each, then ten of $2,000 each for single persons and twice as much for married couples.

Whereas a married couple with two children and a gross income of around $12,000 would pay about 10 percent on average income, the rate on *increases* would be 19 percent. At $20,000 taxable income, the marginal rate becomes 32 percent for a married couple and 38 percent for a single person. The Treasury is a one-third partner. The government gets appreciably more than enough to maintain its real buying power, i.e., an amount proportional to the rate of inflation.

Each increment of inflation *permanently* raises burdens. Even if inflation ends, the higher *real* burdens remain unless rates are reduced. Millions of families and single individuals, not merely a few with large incomes, now encounter the effects of progressive tax rates. Inflation adds to the *real* burden of the personal income tax. A 10 percent inflation would raise tax collections by 14.7 percent.[1] Imagine the outcry if a president or a member of Congress were to propose explicitly a rate boost of such size.

The process of inflation automatically enlarges the size of government. Progressive rates, inadequate depreciation, inventory profits taxed as earnings, illusory capital gains taxed as income (while real losses are incompletely deducted), combine to enlarge tax revenues faster than the true earnings of labor and capital. More resources shift to government.

[1] J. M. Buchanan and J. M. Dean, "Inflation and Real Rates of Income Tax" (Paper delivered at the 1974 annual conference of the National Tax Association—Tax Institute of America, mimeographed)

Political processes can thus determine the use of more and more of the product of our effort and capital. If explicit actions had been required, would not our lawmakers have been more cautious?

The cumulative effect in, say, four or five years can mark more than a slight change in society. The size of government increases without a deliberate analysis of the alternatives, without any reference to voters, without a reasoned conclusion that the quality of performance of government justifies such expansion.

Causes of Inflation

What causes inflation? War, rapid increases in money (silver from the Americas to Spain in the sixteenth century or new checkbook money in most countries today), government budget deficits, crop failures, wage rates rising faster than productivity, monopolies exerting increases in power, freeing the currency from ties to gold or silver—these and other forces have been said to cause inflation. Several are interrelated. Space limits required focus on "causes," and "causes of causes," of America's current inflation.

Professor Poole summarizes monetary developments. He shows that increases in the stock of money have been in amounts that by widely (but not universally) accepted theory can account for the drop in the purchasing power of each dollar. In addition to the figures in his essay, the reader will find in table 4 three measures of the money supply. Although the magnitudes of increases have differed, each has gone up by more than would be consistent with preservation of the worth of the dollar.

The quantity of money increases when the banking system expands demand (checking) deposits to meet loan requests of business, the government, and consumers. The banking system can, and will, create new deposits when the Federal Reserve System makes legal reserves available. Why does it create such reserves—and lending capacity for banks —in amounts that will be inflationary? One reason is that human beings like to borrow "easily"; they like interest rates lower than would prevail if the only supply of funds to meet demand for loans were from saving. By creating new deposits for borrowers, banks can give them funds that did not exist. "Something for nothing"—or so it seems. The country does not lack politicians and businessmen and consumers who support such policies and who condemn the opponent of money creation as heartless and stagnationist.

Not only the quantity of money but also the rate of use—velocity—influences total money demand and the level of prices. Table 5 reveals one measure of the rate of use of money—the turnover of demand deposits(essentially transactions velocity). In 233 Standard Metropolitan Statistical Areas (including New York City) the average number of times a dollar in a checking account was used went up from 45 (less than once

TABLE 4

Measures of the Money Supply,
December Averages for Selected Years, 1947–74
(in billions of dollars)

Year[a]	M_1 *(currency plus demand deposits*[b]*)*	M_2 *(M_1 plus time deposits in commercial banks*[c]*)*	M_3 *(M_2 plus nonbank thrift institutions*[d]*)*
1947	$113	–	–
1950	116	–	–
1955	135	–	–
1960	144	$217	$314
1965	171	301	463
1967	187	350	533
1968	202	382	577
1969	209	392	594
1970	221	425	641
1971	235	473	727
1972	256	526	822
1973	271	572	895
1974[e]	281	597	931

Source: Board of Governors of Federal Reserve System.
[a]Averages of daily figures, seasonally adjusted. 1974 figures are for June. Data for the M_2 and M_3 series have been compiled only for 1960 and subsequent years.
[b]Includes currency in circulation, demand deposits at all commercial banks other than deposits by domestic commercial banks and the United States government, and foreign demand balances at Federal Reserve Banks.
[c]Excludes time deposits of the United States government and of domestic commercial banks. Includes certificates of deposit (CDs) other than negotiable CDs in denominations of $100,000 or more.
[d]Deposits with mutual savings banks and shares of savings and loan associations.
[e]Preliminary.

TABLE 5

Annual Averages of Demand Deposit Turnover Rates for
Selected Calendar Years, 1964–74

Year	*Total 233 SMSAs*	*New York SMSA*
1964	45	90
1965	48	100
1967	57	122
1970	73	155
1971	81	188
1972	86	207
1973	103	248
1974[a]	117	281

Source: Board of Governors of Federal Reserve System.
[a]First seven months.

a week) in 1964 to 117 (more than twice a week) in the first half of 1974. In New York City, average turnover more than tripled from 1964 to 1974, when it reached a rate of more than one use each business day.

More than one writer in this volume, and untold numbers elsewhere, attribute inflation to the government. The alleged and the actual causal relations differ. Government, or an agency of government (the central bank, in this country the Federal Reserve), controls monetary policy. And the national government's own finances can be a cause of inflation —in time of peace as well as war. Table 6 presents figures for receipts, outlays, and surplus or deficit of the federal government for selected years to 1960 and for the entire period since.

TABLE 6

Budget Receipts and Outlays for Selected Fiscal Years, 1930–75[a]
(in billions of dollars)

Fiscal Year	*Receipts*	*Outlays*	*Surplus (+) or Deficit (–)*
1930	$ 4.1	$ 3.3	$ +.7
1935	3.7	6.5	–2.8
1940	6.9	9.6	–2.7
1945	50.2	95.2	–45.0
1950	40.9	43.1	–2.2
1955	65.5	68.5	–3.0
1960	92.5	92.2	+.3
1965	116.8	118.4	–1.6
1970	193.7	196.6	–2.8[b]
1971	188.4	211.4	–23.0
1972	208.6	231.9	–23.2
1973	232.2	246.5	–14.3
1974[c]	264.8	268.3	–3.5
1975[d]	294.0	305.4	–11.4

Source: Office of Management and Budget.
[a]Data for 1930 and 1935 are for the administrative budget, 1940–50 on the consolidated cash basis, and 1955–75 for the unified budget.
[b]Total deficits for 1961–70 inclusive, $55.1 billion net. The only year without a deficit was 1969, which had a surplus of $3.2 billion.
[c]Preliminary.
[d]Estimated.

Federal deficits are widely assumed to be a source, perhaps the chief source, of inflation. Such a conclusion is not necessarily accurate. The Federal Reserve faces no legal or economic compulsion to provide the banking system with extra reserves so that banks can create money (deposits) to buy the additions to federal debt. The Treasury may go into the capital markets and by borrowing there reduce the amounts

available for utilities, housing, manufacturing, and other borrowers. "Tight money" and "high" interest rates may appear as a result of the added Treasury demand for limited supplies of funds for lending.

Human beings, however, like to get things easily. Acting as groups—governments—they see attractive possibilities. One is to vote expenditures to be paid for by taxes on others. Another possibility is to create money to pay for government spending. The printing presses and, even more so, the banking system permit money creation without effort, work, thrift, or sacrifice.

If the economy has much unutilized productive capacity, money creation may finance benefits from government spending without loss of either other output or price-level increases. Economists have preached this sermon long and fervently, attributing it to Keynes's writings of the 1930s when inflation presented no serious problem. "Modern economics can free mankind from bondage to balance as a criterion of wise fiscal policy." And the figures for most years have shown what seem to be disturbing numbers of unemployed persons and wasteful underutilization of plant and equipment. Therefore, many economists in high places and throughout academe have supported "what comes easily" to many on Capitol Hill, in the executive branch, and throughout the land —federal expenditures (and loan programs) not paid for by taxes.

The resulting budget deficits have done more than finance new output from otherwise unutilized productive capacity. One might ask whether these deficits have not been a major cause of inflation. Nevertheless, the economy faces no inherent necessity for creating money to accommodate the Treasury or other borrowers. But how much easier it is to let banks have more reserves and expand their loans than to require borrowers to compete for limited savings!

When a new dollar has been injected into the income-expenditure stream, it will continue to circulate after the original use. One respect in which money differs from other things is that when a dollar is used it is not used up. The person or company or government getting it will then use it. The process of purchase and payment will continue. The effect of one month's or one year's money creation, for the Treasury or for business, is an enlargement of the money stock that is available for continuing use. The faster the money is used (velocity of turnover), the more effect each added dollar will have in supporting money demand and increases in the price level.

The role of federal government finances has become increasingly complex. Professor Weidenbaum, in a presentation that warrants special attention because of the new developments it interprets, emphasizes the growing size of federal spending. More and more financial activities influenced by the federal government are outside the budget. The desire to use the power of government to escape some of the discipline of

competitive markets creates pressure for indirect as well as direct utilization of federal government power to borrow—and to employ the money-creating mechanism.

Inflation extends over the world. Spokesmen in many countries feel that at least part of their inflation has been imported. The causal relations cited are complex; they differ from one country to another. At the conference Professor Robert Mundell of Columbia University emphasized the points noted here. The press of other work prevented him from submitting a written paper for this volume.

Few Americans have been aware of an enormous increase in liquidity over the world. The expansion of Eurodollars, for example, has greatly enlarged a relatively new form of liquid asset. The figures of changes in international monetary reserves since August 15, 1971, stagger the imagination. Advocates of retaining ties of money to gold have argued that without the discipline exerted by such restraint, governments would create, or tolerate the creation of, money on a scale that would be inflationary. Consistent with this view, certainly, is an "explosion" in the quantity of money since the United States finally ended the dollar's fixed tie to gold. In any case, governments over the world have been expanding money at a rapid, though of course not uniform, rate.

Employment Aspects

Inflation and attempts to end it involve employment. The total of aggregate demand, say $1.2 trillion, will finance full employment—at some average wage rate. If the average wage rate goes up, however, more dollars will be needed. The injections of new money in the form of increases in bank loans—made possible by the Federal Reserve to finance either government spending or private business or consumers—can stimulate the demand for labor. In the short run, aggregate demand, including the demand for man-hours of work, can be increased easily. Employment and wage rates will rise.

Rising prices and wage rates, however, may induce increases in employment costs that will price some labor out of the work, e.g., short work weeks, layoffs, or incomplete hiring of new entrants to the labor market. If employees and their unions expect inflation, or a higher rate of inflation, the expectation can lead to insistence on wage increases that assure future unemployment—unless the monetary authorities "validate" the higher level of injections of additional money. Is this not one of the worst dangers of inflation? If wage rates are "sticky," or completely inflexible, downward, then the only way the employment of a growing labor force can rise to a reasonably satisfactory level will be through an "adequate" rise in productivity (output per hour), a squeeze on the shares of output for the suppliers of nonlabor factors of production, or the injection of more money.

Contributors to this volume express concern about current unemployment. A further drop in business as a result of efforts to reduce inflation will reduce employment. Some of the drop in jobs will be temporary as companies adjust inventories; some will be more stubborn because wage rates are too high relative to what consumers will pay for the output of each hour's work. The term *stagflation* appears many times. Employment suffers from elements of stagnation (inadequate expansion of output) while the price level continues to rise.

The short- and the long-run effects of inflation on employment are complex. Dr. Fiedler, for example, notes that much of the 1974 difficulty in housing construction resulted directly from inflation. The drop in housing starts was due, not merely to the rise in prices of materials and labor but also, and quite obviously, to the rise in interest rates and the diversion of loan funds to other parts of the economy. Business demands for loans soared, in part because more dollars were needed to finance operations at higher prices and in part because taxes do not recognize inflation in computing depreciation.

Table 7 presents data also not fully appreciated—the growth of em-

TABLE 7

Labor Force by Employment Status, Annual Averages for Selected Calendar Years, 1929–73[a]
(in millions)

Year	*Total*	*Armed Forces*	*Civilian Labor Force*		*Unemployment as a Percentage of Civilian Labor Force*
			Employed	*Unemployed*	
14 Years of Age and Over					
1929	49.4	.3	47.6	1.6	3.2
1933	51.8	.3	38.8	2.8	24.9
1939	55.6	.4	45.8	9.5	17.2
1946	61.0	3.5	55.3	2.3	3.9
16 Years of Age and Over					
1949	62.9	1.6	57.6	3.7	5.9
1950	63.9	1.7	58.9	3.3	5.3
1955	68.1	3.0	62.2	2.9	4.4
1960	72.1	2.5	65.8	3.9	5.5
1965	77.2	2.7	71.1	3.4	4.5
1970	85.9	3.2	78.6	4.1	4.9
1971	86.9	2.8	79.1	5.0	5.9
1972[b]	89.0	2.4	81.7	4.8	5.6
1973[c]	91.0	2.3	84.4	4.3	4.9
1974[b,c]	94.7	2.2	87.6	4.9	5.4

Source: U.S. Department of Labor, Bureau of Labor Statistics.
[a]Beginning in 1960, data include Alaska and Hawaii.
[b]Not strictly comparable with previous data because of population adjustments.
[c]Data as of August.

ployment. Selecting different sets of years for comparison permits various observations. One might note that unemployment rose by 1.2 million from 1949 to mid-1974 while employment went up 30.0 million—yes, a rise of 30 million. In less than a decade, 1965 to mid-1974, actual employment rose 16.5 million. And the new jobs were generally good jobs. Did inflation help? Or would the employment rise have been greater if the price level had been more nearly stable? Unemployment as a percentage of the labor force rose during this period. The causal relations are not clear.

Certainly, one of the key factors that relates employment and prices to each other—and changes in total employment to changes in the price level—is productivity. If output per man-hour improves by more than the rise in compensation per man-hour, then (unless capital costs go up by more) prices can trend downward. But if the employer finds that costs of employment rise by more than output per man-hour, prices must go up or employment must go down or returns to capital must drop.[2]

Table 8 gives figures, admittedly not perfect but the best available, on wages and man-hour productivity. Output per man-hour has increased—for example, (with 1967 as 100) from 104 in 1970 to 116 in 1973. But man-hour compensation rose by even more, from 125 to 154. As a result, average unit labor cost in the total private economy went up from 119 to 132. Would one not inevitably expect a rise in consumer prices and sluggishness in labor markets?

Efforts to Reduce Inflation

One type of effort to slow the growth of labor cost (the excess of rise in compensation over increase in output per man-hour) was represented by the three-month freeze beginning in August 1971 and then by the controls of Phase II. Professor Mitchell's essay draws upon his intimate involvement in this program as well as his study of other efforts to implement policies of restraint. He examines the problems and the results.

Another approach to restraining labor cost relies heavily upon employee understanding. Mr. Jennings has found that when employees are informed accurately and fully about the company's affairs, they are generally willing to conclude wage agreements which do not force costs up so as to erode profit prospects, threaten jobs, and raise prices. More impressive perhaps has been the experience of certain companies with profit sharing with employees. Dramatic successes are cited. Money and real incomes can rise. Here, it would appear, is one promising method of im-

[2] Since labor's share is about three times as large as that going to suppliers of capital, a "large" decline in the net amount going to suppliers of capital is needed to "finance" a decline in labor productivity per wage dollar.

TABLE 8

Output, Compensation, and Unit Labor Costs in the Private Sector for Selected Calendar Years, 1950–73

(index numbers, 1967=100)

	1950	*1960*	*1970*	*1973*[a]
Output per man-hour, total private	60	78	104	116
Nonfarm industries, total	65	80	103	116
Manufacturing	64	80	108	128
Nonmanufacturing	65	81	102	110
Compensation per man-hour, total private[b]	43	72	125	154
Nonfarm industries, total	45	74	123	152
Manufacturing	45	77	122	150
Nonmanufacturing	46	73	124	153
Unit labor cost, total private	72	92	119	132
Nonfarm industries, total	70	92	119	131
Manufacturing	69	96	113	118
Nonmanufacturing	70	90	123	139

Source: Department of Labor, Bureau of Labor Statistics.

Note: Figures rounded to nearest whole number.

[a]Preliminary.

[b]Wages and salaries plus employers' contributions for social insurance and private plans.

proving the economic well-being of both employees and suppliers of capital without adding to the cost-push aspects of inflation.

Professor Fabricant has studied and written on various aspects of inflation over many years. He integrates this material with work he has done on other economic topics such as the role of government and productivity. He takes a broad view of the current situation and outlook and shows why returning to price-level stability must be slow and painful. His paper examines, among other things, the role of expectations about inflation and the part that they may play in developing policies for the future.

Experience, however, does show that an inflationary trend can be reversed. The program of the late 1950s described by Professor Saulnier deserves far more attention than it has received. He tells a success story of fiscal and monetary policy plus other elements. It was not without its pains. But understanding these, along with what actually worked, can help prepare the nation to deal with their counterparts.

To prevent inflation, government should keep the growth of the supply of money at a rate consistent with price-level stability, but that is easier to say than to do. One difficulty is to say "no" to those who want still more money created. They may argue that more is needed to finance a budget deficit or to provide financing for worthy projects for which funds from private saving seem to be inadequate at current prices.

Among economists, raising federal taxes has become a standard prescription for curbing inflation. Governments by taxation take from families and business some of their income or some of their capital. The dollars thus taken are not available to pay for consumption; nor can they be saved and then used for the private purchase of investment goods.

The tax funds withdrawn from the income stream are no longer available to finance private demand for goods and services. Some of the effect of lower money demand will be prices lower than otherwise; some will be a reduction of physical quantities and hence fewer man- and machine-hours of work.

A second prescription for reducing inflation is to cut the increase in federal expenditures. In periods of inflation the orthodox fiscal program would presumably be a federal budget surplus. If revenues exceed spending, then federal finances can reduce the income flow, taking out more than is put back and thus acting to limit or offset "demand pull." Such is a "tight" fiscal policy.

By lowering the growth of spending (including "off-budget" financing), or by raising tax collections, Congress can produce fiscal action that will alter the flows of income in ways that reduce total demand. Here, it would seem, is an obvious means of preventing inflation if the public really wants to do so.

The obstacles are formidable. A variety of forces operate to increase federal spending. Some result from earlier inflation. Some of recent years represent the costs of undertakings of the Great Society. Some spending programs are newer still. Nevertheless, does it not seem that the *increases* —$400 per capita (adjusted to the estimated fiscal 1975 worth of the dollar) more in fiscal 1974 than a decade ago—must have done enough to call for a change of pace? And new congressional procedures intended to slow the rise of expenditures have just been approved.[3]

Indexing gets increasing attention as one method for meeting some of the problems of inflation. One argument of advocates is that indexing would reduce uncertainties of expectations as a source of pressure for policies that in fact make things worse. Professor Kuhn explains the indexing proposals in general and analyzes the probable effects.

Foreign Experience

The fact that inflation today is worldwide made an examination of the experiences of some other countries appropriate. Table 9 shows how purchasing power has eroded over the world. But the experiences differed

[3] Good reasons of efficiency in resource allocation will in themselves, regardless of inflation, support determined efforts to control spending, i.e., to be as certain as possible that benefits to the public will be worth the cost to taxpayers.

TABLE 9

Erosion of Value of Money in Selected Countries, 1963–74

	Indexes of Value of Money (1963=100)	Annual Rate of Depreciation of Money		
	1973	1963–68[a]	1968–73[a]	1974[b]
	Industrialized Countries			
New Zealand	58	3.8%	6.9%	5.6%
West Germany	71	2.4	4.4	6.4
Netherlands	57	4.5	6.4	7.9
Norway	58	4.1	6.4	8.1
Sweden	61	4.1	5.7	8.3
South Africa	65	3.0	5.5	8.9
Switzerland	64	3.4	5.3	9.0
Beligum	66	3.5	4.6	9.1
United States	69	2.5	4.8	9.3
Canada	68	3.0	4.4	9.4
France	64	3.1	5.8	11.1
Australia	66	2.2	5.3	12.0
United Kingdom	58	3.7	7.0	12.1
Denmark	54	6.0	6.0	12.2
Italy	64	3.4	5.4	12.7
Spain	49	7.0	6.6	13.3
Yugoslavia	25	13.6	12.2	15.4
Japan	55	4.9	6.6	18.2
Greece	69	2.1	5.3	24.6
Median rates		3.7	5.7	11.1
	Less-developed Countries			
Venezuela	80	1.4	3.0	4.7
Iraq	75	1.1	4.5	5.9
Guatemala	82	0.4	3.4	10.4
Iran	72	1.5	4.9	11.6
Peru	39	11.6	6.5	13.6
South Korea	31	13.0	9.0	15.8
Thailand	72	2.5	3.9	17.6
Mexico	64	3.0	5.8	18.3
Brazil	6	32.7	15.8	18.7
Turkey	41	6.2	7.9	18.9
Colombia	33	9.8	11.1	20.5
India	46	9.0	6.1	21.0
Argentina	8	20.3	25.0	23.1
Zaire[c]	21	20.8	8.1	24.4
Philippines	48	4.7	9.4	25.1
Indonesia	1	70.7	12.3	31.8
China (Taiwan)	68	2.2	5.5	35.6
South Vietnam	8	22.5	22.3	39.3
Median rates		3.6	6.0	18.7

Source: First National City Bank.

[a]Compounded annually.

[b]Based on average monthly data available for 1974 compared with corresponding period of 1973.

[c]Formerly the Congo.

tremendously over the 1963-73 decade and in the first part of 1974.

Because of space limits only three countries are discussed. The essays by Professors Robock, Glade, and Schmölders on Brazil, Mexico, and Germany respectively reveal a variety of experiences and policies within each country in the periods covered.

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The Productivity of Freedom

C. LOWELL HARRISS

FREEDOM is more than an *end*, something which in itself is of incalculable value. Freedom is also a *means* for achieving other ends. Among the objectives which freedom helps man achieve are those of his economic life.

But what, really, does the term "freedom" mean in relation to economics? How does it relate to the productivity of an economy? Both questions are difficult. Neither of them am I able to answer to my own full satisfaction. Few of the many aspects are black or white. Gray areas exist. The problems are complex. The values involved are not always in harmony.

The lack of certainty does more than compel caution in presenting conclusions. The existence of doubt also leads to failure to recognize points which, it seems to me, should be more nearly clear than debatable. My university students seem rarely to appreciate the significance of some major elements. And who has not heard, many times and from many sources, statements to the effect that the world's poor, "emerging" countries cannot afford freedom because of their desire to speed economic development? Economic freedom, however, can make an incomparable contribution to good economic performance.

Freedom — The Concept

Freedom implies the absence of restraint. Yet we also think of it as the existence of opportunities — the more numerous the alternatives available, the greater our freedom. As related to economic affairs, freedom often seems to mean less, rather than more, restriction imposed through the political process, i.e., by government. Who will deny the validity and the pertinence of this interpretation? Denial may come from the person who has been blessed by the opportunity to live where governmental restrictions bother him little — or by the man who has become desensitized (or never had a chance to develop feelings for economic freedom).

Freedom in the fullest sense, however, covers more than the absence of governmental restriction. The freedom that counts economically — and humanely — includes the absence of privately created restrictions whose origin is not in some *quid pro quo*.[1] The massing of economic power in various parts of an economy with generally "free" markets can restrict the freedom of persons not exercising the power.

Freedom in economic, as well as in personal, life requires government and the restraints it imposes. The preservation of order and the enjoyment of personal rights cannot exist without curbs on action, curbs which limit opportunity but which operate under law. Organized economic life needs "rules of the game," a framework within which activity can be carried on with assurance about rights and obligations.

Dr. Harriss is Professor of Economics at Columbia University. This article is from an essay written in honor of Marco Fanno of the University of Padua in 1966.

[1] By *quid pro quo* restrictions, I mean those which result from inability or unwillingness to meet the terms demanded by others in a generally competitive market: A's failure to get a new auto because he was unable to meet the seller's terms or B's failure to get the better job because he was unwilling to study at night. These must be distinguished from privately erected obstacles to entry by persons who have the qualifications into a line of business or occupation. Private (nongovernmental) restriction on freedom may be illustrated: (a) the existence of producing units so large that potential newcomers face hurdles which are at times insurmountable; (b) wage agreements that effectively exclude from jobs those persons whose productivity makes them worth less than the wage set.

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A binding legal obligation – to live up to the terms of an agreement – in one sense limits freedom. In a broader sense, however, a body of law which compels men to respect their obligations is a source of freedom and opportunity. The legal system makes possible the contracts and arrangements which are indispensable for specialization and capital accumulation. The essentials of advanced economic life require the governmental imposition, and enforcement, of law.

Government acts in another way to create, while also restraining, economic freedom. Government can use the power of coercion to prevent undesirable "neighborhood" or "third-party" effects. Restrictions against the pollution of air and rivers or inappropriate uses of land provide example. Personal and business activity need to be controlled to reduce adverse effects on persons who are not parties to the transactions. In short, "social costs" of private activity must not be ignored in society's economic calculations if we are to get best overall results. Curbs on some freedoms are necessary to assure the existence of others.

Yet the government which restrains (participates or intervenes – different terms carry different connotations) to make liberty possible also restricts freedom. In surveying the broad scope of government restraint in modern economic life, one sees many "gray areas." Their frequency and extent, however, ought not to get predominant attention. The central issues deserve attention and most need to be understood. What is the relation of freedom to the essential tasks of an economic system?

What Goods and Services Shall be Produced?

An economic system exists to produce goods and services for consumers – today and in the future.[2] But not just anything, not great masses of this and nothing of that.

The objective is to produce a vast *array* of goods and services in the *proportions* which will best satisfy human wishes. The optimum combination can be produced only if the public can, and does, reveal personal desires in all their myriad nuances. What methods of showing desires are available? One method consists of our buying as individuals and as private groups – voting in the market place with our money. We can also reveal desires in buying collectively through government. The processes of individual and collective buying differ – and so must the quality of the results. Three differences warrant comment.

1. When buying in the market, individuals may not always do what they really prefer, or would prefer if they had more facts, including those which will come with experience.[3] Mistakes are legion. Yet the person who makes an erroneous consumption choice will also bear the burden. The effect on incentives will be direct and unrelenting. When we buy collectively through government, however, a considerable minority – perhaps even a majority – will ordinarily have preferred some other arrangement. They would rather have more of this, less of that, a different mix of "public" and private goods and services. The direct and indirect expression of preferences through the process of voting in political elections will leave some of the public getting less satisfaction of its wants than the dollars spent would permit. Compulsion on minorities, therefore, sacrifices human satisfactions which would be met under a regime of freedom – except for such *truly collective* wants as national defense and internal policing.[4]

2. In getting produced those things which are most likely to satisfy human wants, the freedom of the market possesses two other inherent advantages over the political, that is, the governmental, process. (a) Governmental decisions are discontinuous. They are made at infrequent intervals. Once made, they often commit spending for months or years, and in amounts which are subject to little change. Much private spending, in contrast, shifts constantly. In the market place we can vote with every dollar on a list of candidates which is long indeed. Alternatives shift from day to day. Prices and qualities are kept on the move. New opportunities appear. Consumer reaction to them induces changes with a flexibility rarely possible in government purchasing. (b) Governmental spending decisions are made through intermediaries, not by the ultimate user, the citizen being served. Elected officials, the civil service, and the military place the orders. The public served remains somewhat removed from the choices.

3. New products and new types of services are most likely to appear in an environment of freedom. Buyer reactions then indi-

[2] The nature and conditions of work are no less important than many of the rewards we call consumption. Both positive and negative values lie in work, activity, in the job itself. Here, too, freedom plays a role of paramount significance. The more numerous the opportunities to select among alternatives, the greater the likelihood that one can settle on the best combination of job conditions among those available and also induce the type change which makes for better jobs.

[3] As consumer goods get more complex, the need for information increases.

[4] More typically, the family rather than the individual is the unit involved. There are, for example, things I as an individual want rather more than higher prices of food, putting a man on the moon soon, or subsidizing the development of new agricultural land. Yet some of the taxes I pay to the national government go for these purposes.

cate how much of each shall be produced. For many good reasons, government spending patterns tend to be largely stable. Of course, innovation does occur in government, while private monopoly can restrict innovation in the world of business.[5]

Yet even private monopolies may act progressively. And most of the world of business is freer and more competitive than government.

How to Produce

Most goods can be produced, and most desires for services satisfied, in more than one way. Some methods are better than others. The general welfare objective is to use the minimum of inputs per unit of output. The closer the economy comes to this objective, the greater the total output obtainable from the productive resources available.

In the business world, the hope for profit and the fear of loss act powerfully to compel economizing in production. Freedom provides opportunity – and more. One producer's aggressiveness in cost cutting is another's challenge or threat. Governments, however, do not need to meet cost demands in the same sense as do businesses. If the taxpayer can be compelled to pay the bills (including losses in commercial-type activities), what are the inducements to economizing? They exist, but making them powerful and effective requires exceptional imagination, effort, and freedom within government.

Efficiency demands smaller rather than greater use of inputs per unit of output. To take advantage of opportunities, to adjust to the unending (and also uneven) change (a) of the prices of inputs and (b) of technological possibilities, a producer must be free. He must also be under pressure to do what seems best. Production possibilities differ widely from time to time, from place to place. Any single pattern, no matter how well adapted to some situations, will be unsuited to others, and definitely bad for some. Freedom permits the public to benefit from such variety.

Where producers are free to seek better methods – and even more certainly where producers are under the pressure of competition to reduce costs – the public stands to benefit. Government agencies cannot be expected to improve efficiency to the extent that, and as promptly as, permitted by changes in technology and changes in the prices of inputs. Nor does governmental regulation appear promising as an "encourager" of cost reduction. The governmental agency, whether as an operating entity or one regulating private businesses, faces more than one disadvantage as a promoter of production efficiency. So does the business firm or the labor union which is somewhat insulated from the free competition of others. Not the only examples in America are to be found in the makework policies of labor unions and obsolete local laws affecting new construction.

As producers, many of us may nurse a sneaking sympathy for restraints which impede the growth of productivity if they seem to create demand for our labor or what we have to sell. Nevertheless, the result in any "not-so-long" period will be some failure to improve the relation of output to input. Society suffers. To repeat, protection from the forces of freedom will result in greater use of productive resources per unit of output.

Who Gets What?

For the economy as a whole, there can be no Santa Claus, no "free lunch." Society must pay for what it gets. The payments thus made are the incomes of the recipients. Most of us are on both sides – paying and receiving. On one side, we want the amount to be large; on the other side, we want it to be small. Each of us presumably tries to do the best he can, to make the best settlement possible with what he has, in getting income and then in using it.

The greater our freedom to make the best bargains, the better in general will be the results. No one wants to pay others more than their services are worth, and freedom to reject demands for overpayment reduces the likelihood that we shall be forced to do so. In turn, the broader our range of freedom, the larger our opportunities to get the most that our services are worth to others.

In contrast, restrictions on freedom – whether imposed by government, the possessors of private power, or one's own commitments made earlier – will make the terms for some of our bargains less satisfactory than is potentially possible.

As a result of such compulsion, we shall pay more than is inherently necessary for what we get – and get less than our services are worth.

The distribution of income which results from complete freedom would be less than ideal, judging by the standards to which most of us hold. The person with no productive capacity might be left out in the cold because private philanthropy – a not insignificant feature of free society in America – might not fill all humanely distressing gaps. Long ago government came to use funds collected in taxes to meet some needs of persons whose income from production seemed inadequate. Who among us does not endorse such policy?

[5] Obstacles to innovation in business are not limited to monopoly in any strict sense of the term. Lethargy, ignorance, lack of capital, and red tape inside a company are among factors limiting innovation.

Transfer Payments Modify Income Distribution

Modern society goes farther. Transfer payments (such as social insurance and aid to farmers) modify income distribution. The results differ from those of the free market. Taxes also redistribute income and wealth. The general results may, or may not, suit us better than those from freedom.

Nevertheless, in three important respects the consequences of freedom have no small economic merit. 1) The kinds of services desired are most likely to be forthcoming if demanders and suppliers are free to make the best deals possible. 2) Efficiency in utilization will be encouraged. The employer will not use labor being paid $4 an hour on jobs worth $3 an hour. Men capable of producing enough to justify $4 an hour will rarely spend their time on jobs worth $3 an hour. The desire for income leads free men to "allocate" themselves toward the work where the rewards are highest because worker productivity is highest. 3) Men seeking work will not be denied jobs because someone else sets conditions – sex, color, age, or creed – which are not pertinent to the task. Nor will a man be denied work because his productivity does not come up to the lowest level of wage rate permitted by law, union-management agreement, or custom.

Economic progress requires that things be done differently. What could be more obvious than that innovation, change, the striking out in new directions, all depend upon freedom? Bureaucracy – in government, in large businesses or labor unions, perhaps even in universities, religious organizations, and private foundations – provides stability without which progress is impossible. Yet bureaucracy and the slow decision processes of legislatures get in the way of the change which makes up the very essence of economic progress. Perhaps the greatest contribution of freedom to economic productivity lies in the fruits of progress.

Concluding Comment

Reality cannot compete with dreams, at least not "fairly." How easy to romanticize, perhaps about free enterprise, perhaps about possibilities of improving the world by some governmental policy which will restrict the freedom of others: Mr. Dooley made a good point when he said, "A man that'd expect to train lobsters to fly in a year is called a lunatic; but a man that thinks men can be turned into angels by an election is called a reformer and remains at large."

Government will inevitably influence economic affairs extensively. One element of the essential intervention will deal with private market power. Another will involve efforts to meet the problems of particular "soft spots" – individuals, groups, areas – in exceptional need. Let's hope that the results will be constructive. Yet is it not a bit sobering to look at almost the *oldest* example of governmental intervention in the United States – regulation of railroads – and that which today gets the *most financial outlay* – agriculture? The results are less than brilliant, scarcely models for the "good society." One reason for the lack of success in these cases is that governmental activity has imposed restrictions on freedom rather than enlisting freedom – in combination with those things which government has to offer.

One advantage of prosperity is that it frees us from the need to worry about small economic problems. Many details of government spending are just that, small and unimportant. But many are not. The quality of the decisions must influence profoundly the quality of society. In the words of one of history's greatest economists, Alfred Marshall:

> Government is the most precious of human possessions; and no care can be too great to be spent on enabling it to do its work in the best way: a chief condition to that end is that it should not be set to work for which it is not specially qualified, under the conditions of time and place.

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Tax Fundamentals for Economic Progress

By C. Lowell Harriss

Economic Consultant, Tax Foundation

Competition in the search for self-interest serves well to bring out the best one can offer in the market place, as well as in sport. But team play and cooperation also have their place. They should now have a prominent role in the making of tax policy for economic progress. "Liberals" and "conservatives," those placing themselves "right of center" and those on the "left," have an overwhelming *community of interest* in two agencies for human progress — capital formation and business enterprise.

At the state and local level, tax decisions do sometimes reflect concern for the economic base. Awareness of the importance of productive, employing businesses leads to questioning about how best to avoid impeding economic progress. At the Federal level, too, some reorientation of approaches, some shaking off of older biases, can help in the next stages of tax revision. Let us try to look beyond the conflicts of self-interest which so often overwhelm other considerations in taxation. Can we not recognize that as Federal fiscal affairs bear so powerfully on the entire economy "we are all in this together"? The "we" includes our children.

The tax cut to encourage consumption as an anti-recession stimulant had overwhelming support this spring. But looking into the future, we see a population that will have grown by about 40 million in the next 15 years or so. If we are to meet the attendant growth in the needs for more and better consumer goods and services, we must face one inescapable fact: Such progress requires more and better facilities for production.

Recent *Tax Reviews* have examined aspects of the taxation of capital[1]. Things we Americans are doing in taxing the supply and use of capital conflict with what we hope for in better living — for ourselves and others, not least the poor and disadvantaged, and especially each year's 1,300,000 or more *entrants* seeking jobs in private industries. The latter expect earnings which often require $25,000 or more in "tools" — capital provided by the employer.

Everyone benefits from progress in enlarging the economy's capital base — the equipment for jobs, for housing, and for electric, telephone, and other public utilities. Major beneficiaries include young and growing families who will not themselves have done much saving, who will not own much of the new capital, but who do get to use the equipment and to enjoy the fruits it helps to produce. Today, concern for low-income groups appears prominently when discussing taxes. But persons who believe that they

1. For example, Charles W. Stewart, Jr., *Taxation and the Crisis of Capital*, August 1974; and Norman B. Ture, *Capital Needs, Profits, and Inflation*, January 1975.

This Issue in Brief

Is it a romantic illusion to expect legislators to put aside biased misconceptions and to cooperate on tax revisions that will reduce obstacles to economic progress?

The author sees a clear need to increase the rate of capital formation by billions a month over the next decade! To do so, we will need a cooperative spirit. For years, what we have been doing in taxing the supply and use of capital has conflicted with what we hope for in better living — for all.

Everyone benefits from progress in enlarging the economy's capital base.

have the best of intentions may advocate a tilting of tax policy to enable such groups to consume more now while overlooking a basic fact: The ability to consume depends upon the ability to produce.

The benefits of new and better capital facilities spread widely — larger output, new and better quality goods and services, increases in employee productivity and thereby in the ability of employers to raise pay, environmental improvement, more housing, new sources of energy, the prevention of inflation, stronger competitive position in world markets, and so on.

New capital requires new savings. But high taxes and progressive tax rates impede saving and thus obstruct progress. The tax rates we call progressive now channel more and more income to government for consumption as distinguished from capital formation.

In the 3 boom years of 1972, 1973, and 1974 net personal saving averaged about $325 a year per capita; undistributed corporate earnings (without allowance for erosion due to inflation) were around $200. Such amounts, even when cumulated for several years, seem small compared with the costs of a house or the buildings, machinery, and inventory needed for a good job. Estimates of "needs" which bear any reasonable relationship to population increases and to the standard of living which people are expecting will require formidable totals of new saving. And we must add large amounts for environmental demands and energy supply requirements.

A recent study using reasonable assumptions has estimated gross uses of investment funds ("needs") from 1974 to 1985 at $4.7 trillion and capital consumption allowances (depreciation) at $2.4 trillion. There will remain "need" of $2.3 trillion for net personal saving and undistributed corporate earnings. Yet they would total only about $1.7 trillion. The *gap* of over $600 billion would exceed net saving by one third[2]. A shortfall of anything like this magnitude — more than $4 billion a month over the next decade — would deprive us of progress we expect.

2. The New York Stock Exchange, *The Capital Needs and Savings Potential of the U.S. Economy* (1974) p. 16.

Professor C. Lowell Harriss is Past President of the National Tax Association — Tax Institute of America and Vice President of the International Institute of Public Finance. He has taught economics at Columbia University since 1938, is Economic Consultant to Tax Foundation, and is the author of many articles and textbooks.

Being forewarned, can we not act to prevent disappointments? Here is an opportunity for deliberate effort to "pull together." To suggest that Federal tax policy could really emphasize the community of interest in capital formation for economic progress may be indulging in romantic illusion. But attempts to develop a cooperative spirit are worth a try.

How might we increase the rate of capital formation? This is a question for extended discussion, not one for which specific answers will be proposed here. But some possibilities can be noted. The increase in government spending from year to year could be slowed, either (1) by cutting collective consumption (services for the general public) or (2) by reducing government transfer payments which permit personal consumption. The Federal budget deficit would be smaller and hence the absorption of funds from private saving. The 1976 budget calls for per capita spending of $344 *above* that of 1966 (in dollars of 1975 purchasing power). How much more increase would serve us well as tax reduction?

Adjusting Capital Gains Tax, A Capital Preserving Move

Would it be possible to focus a reduction in the "tax take" where most of the funds freed would go into savings? The steeper portions of the personal income tax may seem to offer greatest promise *per dollar of revenue foregone* — perhaps a one-tenth cut in every rate above 39 percent (over $32,000 taxable for a married couple). More generally, adjustment of rates and brackets for inflation could moderate the steepness of rate graduation. Reform of the two-tier taxation of dividends from corporate earnings certainly deserves high priority. A first step might be enlargement of the $100 dividend exclusion to provide some incentive for investment in shares and to increase by a little the funds for such investment. Adjusting the taxation of capital gains and losses to allow for inflation could be a capital preserving move.

The estate and gift taxes which transfer private wealth to government for consumption warrant reexamination. For example, the $60,000 estate tax exemption might be increased, perhaps to the real value it had when originally adopted in 1942; rate brackets might be widened.

Allowing a tax deduction or credit for personal savings may seem logical; but if net saving increase is the goal, caution is necessary to compare the net revenue effects with the probable aid to capital formation. Additional opportunities might be granted for the postponement (or exemption) of tax on interest or dividends (automatically) reinvested as now offered in savings bonds, pension funds, individual retirement plans, and life insurance. All such

suggestions call for sophisticated and searching examination.

Proposals to speed capital formation would probably spark emotional criticism. Much of it would miss a major point. The beneficiaries of capital formation are not only those who own the capital but also those who work with the equipment or live in the housing or use the energy which it makes possible.

The outlook for Social Security has implications for capital formation. Paying for the increased benefits[3] already legislated will impede net saving. More retirees will get more dollars to consume without producing. Social Security has not built up a capital base of production facilities to provide the benefits which Congress has promised. Workers must support retirees. More of the country's taxpaying capacity must be channeled into financing consumption by pensioners. Heavier taxes, whether imposed on payrolls or as "general revenue," will depress our ability to add to the facilities to produce the goods and services which retirees have been promised.

Over 82% of All Income Originates in Business

The possibilities of aiding economic progress by reducing tax obstacles are clear as one looks at the taxation of business. The citizen needs the help of new perspectives on the role of business. To go to fundamentals, let us think of the economy as a giant cooperative. In it myriads of elements compete — individuals and businesses, large and small. They get their personal benefits from doing what others want.

"News" as reported in the media may give the impression that economic life depends upon government. Such publicity misleads. Important as some government policies may be, employment and production — the creation of income — will be predominantly by business. The adjoining table shows the facts.

Over 82 percent of all income originates in business. Moreover, compensation of employees accounted for 82 percent of the total earnings of corporate business. Corporate payments to employees were more than eight times as much as after-tax profit.

Corporate after-tax profit was 6.8 percent, one-sixteenth, of national income.[4] For all manufacturing corporations, after-tax profit averages from year to year around 4½ to 5½ percent of the prices they receive.

Sources of Income:

Business, Government and Households, 1973

	Percent of Total
National Income	100.0
Income originating in business, total:	82.2
Corporate business	55.4
Compensation of employees	45.3
Corporate profits and inventory valuation adjustment	
Profits before tax	11.5
Profits after tax (a)	6.8
Net interest	.4
Sole proprietors and partnerships	18.8
Compensation of employees	8.8
Proprietors' income and inventory valuation adjustment	9.0
Net interest	.9
Other private business	6.4
Compensation of employees	.3
Proprietors' income	.1
Rental income of persons	2.4
Net interest	3.6
Government enterprises	1.5
Compensation of employees	1.5
Income originating in general government:	
Compensation of employees	13.9
Income originating in households and institutions:	
Compensation of employees	3.8

(a) Corporate income tax was 4.7 per cent of national income.

Source: Department of Commerce, Bureau of Economic Analysis.

Human well-being rests overwhelmingly upon the success with which people in business utilize their time and other resources to produce. If time on the job is to produce much, the worker must have capital facilities, usually financed by others.

From giant corporations to neighborhood stores, businesses are associations of people as owners, employees, and suppliers of capital. These enterprises function to serve us as consumers. Business is not separate and somehow apart from "the people" but central to the ways we produce and the supply of goods and services for consumption.

The American people have working *for* them (and something they work *with*) a business structure of unparalleled strength. The ever-improving accomplishments of business will be the source of better living for all. Yet as we see daily, the public gets minimal news about what business firms do well and more about what is, or is so said to be, done poorly. With hundreds of thousands of companies, and with billions of transactions each day, some deplorable actions will occur. Yet by reasonable standards, business firms — the giants and the tiny ones — serve us

3. The benefits are excluded from income taxation. Recipients will receive a reduction of personal tax in 1975 — sometimes called a "tax expenditure" — of about $3.5 billion.

4. Profit figures in this paragraph reflect adjustment for inventory valuation, but there is no allowance for failure to reflect inflation in computing depreciation.

well. In a world of human beings, not everyone will be a St. Francis. And even the best of us will at times fail to meet our own highest standards. (Politics, as an alternative, does not always bring out the best in mankind.) The processes of competition in the market place, day in and day out, serve to correct what falls short of the attainable. And through the market we reward those who do well.

If a tax change favors – or reduces obstacles to – business, then the improvement goes to people. The bigger the corporation, the larger the number of workers, consumers, and owners benefited – or hurt – when its taxes are changed.

Criticisms of business sometimes seem to be increasingly fashionable. Yet rising demands press companies to do more on many fronts – to add new products and improve old ones, reduce pollution, spend more on pensions and safety procedures, supply goods and services at acceptable prices, develop new sources of energy, and so on.

Taxes on Corporations No Help in Rewarding Suppliers of Capital

Taxes on businesses cannot help them in meeting our desires for jobs and income and goods and services. Taxes on corporations do not help in rewarding the suppliers of capital nor in making for economic progress. Taxes can hurt. We and our children will be able to live better – the whole economy can produce more and more efficiently – if businesses are not hampered by high tax rates. We can have better jobs and more of them, expect more in product and service innovation, and bear with less distress the taxes to pay for government, all these and more if business firms face low instead of high taxes.

All companies pay social insurance taxes – for retirement, disability, medicare, and unemployment. (If Americans want more employment, does it make sense to impose taxes on the employer for paying wages?) These taxes have been going up. Employers paid an average per employee in 1975 of around \$550; the 1965 figure adjusted to 1975 prices was about \$300.

Today's 48 percent rate on so much of corporate earnings is more than three times the generally prevailing rate before 1940. State taxes are also higher and more numerous. The earnings of many unincorporated businesses are also taxed heavily.

Moreover, inflation has increased the effective burdens by forcing businesses to include "phantom profits" in taxable income. Treasury Secretary Simon testifying before the Senate Committee on Finance (March 5, 1975) said, "Nonfinancial corporations reported profits after taxes in 1974 of \$65.5 billion as compared to \$38.2 billion in 1965, an apparent 71 percent increase. But when depreciation is calculated on a basis that provides a more realistic accounting for the current value of the capital used in production and when the effect of inflation on inventory values is eliminated, after-tax profits actually declined by 50 percent from \$37.0 billion in 1965 to \$20.6 billion in 1974.

"A major factor contributing to this decline is that income taxes were payable on these fictitious elements of profits. That resulted in a rise in the effective tax rate on true profits from about 43 percent in 1965 to 69 percent in 1974." In *real terms* the undistributed profit of nonfinancial corporations in 1974 *plus* depreciation "was not nearly enough even to replace existing capacity. . . ."

Traditionally the economy relies heavily on after-tax earnings kept in businesses as a major source of equity capital. Such funds will themselves finance highly productive expansions; and they are vital to support new debt for expansion.

Discussions of tax policy that treat corporations as different from people put thinking on the wrong track. Somehow, it is implied, the costs of government as collected from corporations rest on nonhuman entities. Not possible! Voters cannot escape the problems of taxing human beings by requiring a corporate treasurer to send checks to the Treasury.

Taxes do more than take money. They influence the way a company finances itself and operates. Space limits, however, prevent discussion of the ways in which high tax rates can divert businesses from those methods which would be the best on grounds of inherent economic productivity to those which become most attractive in light of tax factors.

Our ability to improve the quality of life will be greater, the larger the real incomes we produce. Corporations large and small are agencies on which we must rely for income for ourselves and to reduce poverty, clean up the environment, pay for education, improve health services, finance art and science, reduce the deficits of the worthy nonprofit organizations from whom we get moving appeals daily, and so on. Corporation taxes can work against us, not only in our hopes for our own better living but also in our aspirations for others.

The guidelines for tax reform should recognize that Americans will do best in building for the economic future by creating a framework in which competitive enterprise can operate and expand and become more efficient. For that, Congress (and state legislatures and city councils) should reduce the obstacles to capital accumulation and lower the tax rates on business.

STATEMENT OF HON. ROMAN L. HRUSKA, A U.S. SENATOR FROM THE STATE OF NEBRASKA

Senator HRUSKA. Mr. Chairman, I shall read a page or two of my statement, and then, with your kind permission submit the rest of it for inclusion in the record.

As a cosponsor of Senate Joint Resolution 55, I appreciate this opportunity to testify in its support.

First, may I commend my distinguished colleague and fellow Nebraskan for his persistence and leadership in keeping this question before the Congress and the American people.

In his testimony on September 23, Senator Curtis recounted the 25-year struggle to write a constitutional amendment which would mandate a pay-as-you-go policy for the Federal Government. He recalled the labors of such stalwart guardians of the public purse as the late Harry Byrd, Sr., of Virginia, and the late Styles Bridges of New Hampshire, both very distinguished Members of the Senate in their time. Also noted was the contribution of former Senator John Williams of Delaware to the automatic surtax proposal.

Senator Curtis, however, did not mention his own excellent credentials for dealing with this question. His congressional service spans 35 continuous years. For 10 years he served on the House Ways and Means Committee, and since 1961 he has served on the Senate Finance Committee where he is now ranking minority member. He was selected in 1971 for membership on the Joint Committee on Internal Revenue Taxation. And in 1972 and 1973 Senator Curtis and I served together on the Joint Study Committee for the Budget Control Act, which laid the foundations for the Budget Reform Act of 1974.

This quarter of a century effort to mandate a balanced Federal budget through a constitutional amendment has not been a trivial exercise. It has commanded the talents and the energies of Senators with long experience and proven competent in Government finance. Until recently, they waged a lonely struggle against the economic fashions of the past four decades.

Now that our present economic difficulties have exposed the fallacies of "fine tuning" and deficit financing, the balanced-budget proposal is receiving the wide and favorable comment it deserves.

Mr. Chairman, my remarks first review why today's inflation and recession, both largely attributed to deficit financing, demand budget balancing if we are to achieve economic stability. Next my remarks comment on the recommendations made in 1973 by the Joint Study Committee on Budget Control and the implications of their not being incorporated into the Budget Reform Act of 1974. In my judgment, the failure of Congress to include an automatic tax surcharge provision in that 1974 act jeopardizes the intended reforms.

Finally, my remarks review State government concerns with Federal deficit financing. A constitutional amendment requires ratification by three-fourths of the 50 States. All State governments now operate on pay as you go. They have had ample experience in living within their means and in enduring the economic burdens of Federal deficit financing. I firmly believe that Congress is obliged to give the States an opportunity to weigh the constitutional amendment which we are now discussing and which is intended to relieve those burdens.

I thank the committee for this opportunity to submit my statement.
[The prepared statement of Senator Roman L. Hruska follows:]

TESTIMONY BY JAMES R. EVANS OF GLEN ELLYN, ILL., REPRESENTING THE AMERICAN CONSERVATIVE UNION OF WASHINGTON, D.C. ON SENATE JOINT RESOLUTION 55

My name is James R. Evans. I reside in Glen Ellyn, Illinois. I am here today representing the more than 80,000 members of the American Conservative Union to testify on behalf of Senate Joint Resolution 55, (as proposed to be modified).

During the past 40 years, while the population of the United States has grown approximately 75%, the cost of government has exploded by about 10,000%, or 135 times the population growth rate.

Run away deficits, ($187,000,000,000.00, on a cash basis, since 1961) created by unrestrained government spending is destroying the life blood of a strong economy—namely *capital formation and accumulation*. Capital has been the heart of the phenomenal economic growth in the United States over the past 150 years, as well as the primary creator of the highest standard of living in the world.

Today, a man can leave his home in New York City and arrive at his destination in San Francisco in roughly five hours. The reason he can do so is that he is able to utilize approximately $10,000,000,000.00 in capital created by American business and invested in the requirements that produce the taxicabs he used, the super highways over which he traveled, the extensive airport facilities, a 747 jumbo jet, and all the accompanying luxuries that go with it. Two hundred years ago it took the same man approximately 200 extremely uncomfortable days to go from New York to San Francisco, and involved probably $300.00 in capital in terms of his constoga wagon, horses and allied equipment.

By way of further example, there is no job that can be done manually any faster today than it was done two hundred years ago. It is not possible for a man to earn more than a dollar or two an hour for moving earth with a shovel, but, if someone will provide the capital required to furnish him with a three-cubic yard tractor, he can then earn $10.00 to $15.00 per hour, and that is the tap-root from which our productivity and our standard of living emanates.

Who provides the capital necessary for the tractors, the machine tools, and the other sources of productivity, jobs, high wages, and economic stability?

Most of it is derived from corporate profits, as an aside—those much maligned corporate profits become simply another business cost—the cost of capital with which to provide tools and jobs. Thus—*capital formation.*

Capital accumulation is a result of private savings and enumerable other interest and dividend bearing investments created from the salaries and incomes of people who creatively work to provide goods and services. These, in turn provide the required sources for business borrowings for still further expansion.

In short, while the untutored continue to propose various forms of forced redistribution of the economic pie, our great Free Market system has continued to bake bigger and bigger pies, which, despite reports to the contrary, allows a most productive and moral distribution to take care of itself without interference and coercion.

Gentlemen, we are running out of the major ingredient in our synergistic economic pie—namely capital.

Government at all levels now consumes between 35 to 45 percent of our personal incomes in taxes, while the ravages of inflation created by deficit spending continue to rob the economy of its vitality. In 1974, government took almost 65 percent of the available credit, and during the coming fiscal year, government borrowing will take more than 70 percent of the capital market, all of which then becomes unavailable to business.

To demonstrate even more graphically the staggering nature of this problem, I refer to a consolidated balance sheet for the United States government for the fiscal year ending June 30, 1974 prepared by Arthur Anderson and Company. If the government used accrual accounting methods, as most of American business does, the reported $3,500,000,000 deficit for fiscal 1974 becomes a more realistic $95,000,000,000 deficit—or 3 times larger than that reported by the government. The Arthur Anderson balance sheet then reflects total liabilities of over one trillion dollars, and an accumulated deficit of eight hundred twelve billion dollars. Gentlemen, that is bankruptcy by any definition.

A Constitutional Amendment such as that proposed by Senator Carl Curtis of Nebraska is not only essential, but urgent. Unless we act quickly, even three digit inflation is possible, and with it, the final destruction of the most productive economic system the world has ever known.

TESTIMONY BY U.S. SENATOR ROMAN L. HRUSKA OF NEBRASKA

Mr. Chairman, as a cosponsor of S.J. Res. 55, I appreciate this opportunity to testify in its support.

First, may I commend my distinguished colleague and fellow Nebraskan, Senator Curtis, for his persistence and leadership in keeping this question before Congress and the American people.

In his testimony on September 23, Senator Curtis recounted the 25-year struggle to write a constitutional amendment which would mandate a pay-as-you-go policy for the federal government. He recalled the labors of such stalwart guardians of the public purse as the late Senator Harry Byrd, Sr., of Virginia and the late Senator Styles Bridges of New Hampshire. Also noted was the contribution of former Senator John Williams of Delaware to the automatic surtax proposal.

Senator Curtis did not mention his own excellent credentials for dealing with this question. His congressional service spans 35 continuous years. For 10 years he served on the House Ways and Means Committee, and since 1961 he has served on the Senate Finance Committee where he is now the ranking Minority member. He was selected in 1971 for membership on the Joint Committee on Internal Revenue Taxation. In 1972 and 1973 Senator Curtis and I served together on the Joint Study Committee on Budget Control which laid the foundations for the Budget Reform Act of 1974.

This quarter of a century effort to mandate a balanced federal budget through a constitutional amendment has not been a trivial exercise. It has commanded the talents and energies of Senators with long experience and proven competence in government finance. Until recently they waged a lonely struggle against the economic fashions of the past four decades. Now that our present economic difficulties have exposed the fallacies of "fine tuning" and deficit financing, the balanced budget proposal is receiving the wide and favorable comment it deserves. This recognition is long overdue and well-merited. It may also be said that the movement toward a balanced budget is a return to fiscal practices that had served our nation well until the third decade of this century.

Mr. Chairman, my remarks first review why today's inflation and recession, both largely attributed to deficit financing, demand budget balancing if we are to achieve economic stability. For years I have been among those Members of Congress who have stressed the perils of deficit financing. Recent events have proved the dangers real. These dangers have never been purely economic or fiscal in character. The struggle has been much more basic. A free society whose institutions bear witness to the spirit of ordered liberty has been threatened for four decades by the drift toward a regimented state dominated by central planning and direction.

Next my remarks comment on recommendations made in 1973 by the Joint Study Committee on Budget Control, and the implementations of their not being incorporated into the Budget Reform Act of 1974. In my judgment, the failure of Congress to include an automatic tax surcharge provision in the 1974 Act jeopardizes the intended reforms.

Finally, my remarks review state government concerns with federal deficit financing. A constitutional amendment requires ratification by three-fourths of the 50 states. All state governments now operate on pay-as-you-go. They have had ample experience in living within their means and in enduring the economic burdens of federal deficit financing. I believe that Congress is obliged to give the states an opportunity to weigh a constitutional amendment intended to relieve those burdens.

THE PRESENT ECONOMIC SITUATION DEMANDS A RETURN TO A BALANCED FEDERAL BUDGET

The federal government has lost control of its budget. Low estimates of the Fiscal Year 1976 deficit now run into the seventy billion dollar range.

The recent brave talk of economists about "fine-tuning" the economy has proved completely illusory. Instead of spending and taxing to promote full employment with stable prices, the federal government has succumbed to the temptation to overspend. The result has been serious inflation. Attempts to cure

the inflation have resulted in unemployment. This has led the government to adopt several "stop-go" policies which have had serious economic consequences.

There are, of course, many steps between the original cause of overspending and the ultimate result of unemployment. But, if the federal government had not overspent for the past several years, we would not now be suffering both inflation and recession. Deficit finance clearly has produced economic instability.

The federal government is not the cure for our present economic problems; it is the cause of these problems. If the private sector had produced the worst recession since the Great Depression, many would be concluding that capitalism inevitably leads to unemployment. Now that government has caused the worst recession since the Great Depression, few are drawing the conclusion that government action increases economic instability. I believe that this conclusion is entirely justified.

Economists thought government would be able to raise taxes or lower spending according to the demands of their theoretical models. The economists forget that politics is even more an art than economics. To their distress government has been unable to play the role of sober economic judge envisioned by the advocates of deficit finance. Nor will government be able to assume this role merely by replacing the current set of elected officials. So long as politicians respond to their constituents, and so long as human nature remains as we know it, government will be disposed to overspend. We need a more fundamental remedy if government is to exercise fiscal restraint.

A constitutional amendment, as proposed in S.J. Res. 55, to require the federal government to balance its budget, would provide the needed discipline. With the amendment in place elected officials would have no choice but to point out that taxes must accompany increases in government services. To do so will be painful for elected officials. We naturally dislike being bearers of bad news.

It behooves all elected officials to come to grips with the economic fact of life that, if government continually spends more than it takes in, the differences must be made up by other sectors of the economy. The deficit must be paid. As the old saying goes: There is no free lunch.

In a more optimistic era, economists believed that the deficit would spur the economy to further production, and could then be paid out of the extra production. This may not be exactly the same thing as getting something for nothing but it comes close. The experience of the past several years shows that deficit spending leads finally to less production, not more. If there is no additional output, then the deficit is being paid through other means.

When the government runs a deficit, it must either print more money or sell bonds. We have been doing both on a massive scale. Each method exacts a heavy price.

Adding to the money supply fuels inflation directly. Inflation is far more burdensome than a straightforward tax because consumers and businessmen cannot efficiently plan for the future. They do not know how big the bite is going to be.

When the government sells bonds, interest rates rise. Private investment in capital equipment falls. Jobs are lost.

As we know, deficit finance creates the illusion that government programs do not have to be paid for. Because the programs must be paid for at least indirectly, it would be far better to know the price tags in advance. A mandatory balanced federal budget will force the cost of government out into the open. The cost will not be disguised behind inflation, fewer jobs, higher interest rates and recession.

Consumers are much better shoppers when they have accurate price information. With a mandatory balanced budget supporters of government programs will have to justify the true costs to the voters. This probably will make it more difficult to enact new spending programs, a most desirable result in my judgment. Public funds should not be spent for programs which do not promise to return full value to the taxpayer.

Requiring a balanced budget also will compel us to admit that explicit government fiscal policy promotes rather than cures economic instability. For many this admission will be difficult. Entire careers have been dedicated during the past forty-odd years in the attempt to prove that government can be our economic savior. Our unfortunate experiences in recent years show clearly that it cannot.

These considerations leave us with only two choices. First, we can rely increasingly on government intervention in the marketplace. It can be argued that government economic policy has failed in the past because government was too timid and that now more forceful action is required. This will lead, I believe, to total regimentation of our society.

We cannot increasingly regulate our economic system without drastically reducing personal freedom. Free expression in the marketplace is basic to liberty. Except in time of emergency deficit finance restricts liberty because it is unwarranted government interference in our economic lives. It leads inevitably to government controls through attempts to check the destabilizing effects of the deficit. We have seen several turns of this vicious cycle over the past few years. It is obvious that the process is accelerating. Deficits are increasing and personal freedoms are diminishing, both at rapid rates.

The second choice is to reduce government interference in our economy. A balanced federal budget is an essential step if this choice is to succeed. Without a mandatory balanced budget we will be unable to end budget deficits and all of their adverse consequences, not even in those years when the economists' models say we should.

A balanced budget will require us to face hard choices on goals and priorities. Most of us would prefer to avoid these choices. But deficit finance has brought us to a point where we can no longer avoid the choices. To bring spending and revenues into balance, we may have to give up some government programs. Certainly we will have to reduce the scale or greatly improve the efficiency of many programs. We also must be willing to live with the risks of a market economy. There will be losers as well as winners in the marketplace.

The real choice, I submit, is not in the first instance between a balanced budget and deficit finance. The primary choice is between liberty with its accompanying risks and uncertainties, and the dull regimented national state in which the individual loses his freedom of choice and becomes a pawn in the hands of economic social planners.

LESSONS LEARNED FROM THE BUDGET REFORM EFFORT

The experience of the Joint Study Committee on Budget Control is instructive for dealing with the question of a constitutional amendment to mandate a balanced budget.

I should make celar that the Joint Committee was limited in addressing the question of deficit financing. Its charter called for proposing procedures for "improving congressional control over budgetary outlay and receipt totals." We were not charged with taking up such a fundamental reform as a constitutional amendment. Our labors were bounded by what could be achieved through statutes and changes in the rules of the two Houses of Congress.

The Joint Committee thoroughly explored all aspects of budgeting and revenue raising. Historical trends in budgeting as well as the recent impact of so-called "back door spending" and "uncontrollables" were analyzed and evaluated. On the revenue side, the origins and possible consequences of recent deficit financing trends were carefully examined.

The Joint Committee was acutely conscious of the rapid growth in the size of the federal deficit. The deficit for Fiscal Year 1973, for example, was estimated at a then terrifying $25 billion, or about one-third of the deficit we expect to incur in the present Fiscal Year.

Numerous recommendations were made to assure a careful weighing of outlays and tax receipts. The Committee wanted Congress to know clearly when it was heading toward a deficit and how that deficit was being generated.

Many committee recommendations were incorporated into the Budget Reform Act. I believe that most Members of Congress will agree that the effort last spring to pass the First Concurrent Resolution on the Budget and the subsequent scorekeeping efforts have kept broad budget and revenue factors in sharp focus.

I am very much distressed, though, with how the concurrent resolution process seems to have enabled Congress to live comfortably with a deficit target of $68.6 billion. I sense that our goal may no longer be a balanced budget or even a reduced deficit. At times we seem pleased just to hold the line. For this Senator it would be the height of irony if, in pursuit of budget reform, we should make a virtue of holding to a deficit level of $68.6 billion.

This possibility has led me to conclude that the Joint Committee suffered a severe defeat when Congress failed to accept its recommendations for an automatic tax surcharge. In the form proposed by the Joint Committee, the surcharge would have been applied automatically if congressional actions resulted in the deficit's exceeding the level established in the final Concurrent Resolution on the Budget. The Budget reform bill introduced by Senator McClellan of Arkansas as S. 1641 on April 18, 1973, and which I was privileged to cosponsor, incorporated the Joint Study Committee's recommendation. It was not included in the version of the bill signed into law on July 12, 1974.

It may be suggested that I am demanding more of the Budget Reform Act than is necessary to control the deficit. The Reform Act does impose requirements on the Congress to make explicit decisions on the size of the deficit to outlay and revenue targets. On the other hand, I am convinced that a mandatory requirement to increase taxes if the deficit target proves low, would have imposed a much stronger discipline on spending than the present arrangements. Such a requirement could have been qualified by "emergency" provisions similar to those included in S.J. Res. 55. Congress still has to face up to the question of what to do if the deficit target in the Second Concurrent Resolution is exceeded by certain entitlement programs in the so-called "uncontrollable" category.

In any event, in 1974 Congress rejected an opportunity to impose a mandatory tax surcharge to balance spending and revenues at the margin of the agreed deficit target. I do not believe the Congress is likely in the foreseeable future to impose upon itself even that limited requirement. We may, I fear, go through the exercise of establishing a deficit target in good faith, only to shrink from the necessary taxing or spending reduction actions if the deficit level is exceeded. The line of least resistance will be to increase the deficit.

If Congress will not take even the limited balancing step recommended by the Joint Study Committee, can we expect it to impose by statute a requirement to balance the budget? Nor, in my judgment, are the federal courts likely to mandate budget balancing, assuming that a case could be presented on that issue.

Our experience with the Budget Reform Act affirms that the constitutional amendment route, drastic as it may seem at first glance, is the only realistic course for mandating a balanced federal budget. It is a course that would permit the Congress to decide only on referring the question for ratification. The ultimate power of decision would rest with the states.

THE STATES AND FEDERAL DEFICITS

State and local governments have experienced spectacular growth in the last two decades:

From 1952 to 1972 State and local expenditures increased by 550 percent, from $25.2 billion to $164 billion.

During the same period State and local government debt rose by $145 billion, despite the fact that all of the States now require "balanced budgets."

Federal stimulation has been a major cause of these increases in State budgets and State debts. This stimulation has been facilitated by the ease with which the Federal Government has incurred deficits to finance new grant-in-aid programs. The federal government has not been constrained by the need to raise taxes to launch new program ventures.

We have witnessed a dramatic growth in Federal Assistance to State and local governments:

From $3 billion in 1955 to some $52 billion in 1975;

From less than 100 grant-in-aid programs in 1955 to more than 1,000 in 1975;

From 18.4 percent of state and local expenditures in 1965 to 32.4 percent in 1974.

Federal grant-in-aid programs, at levels made possible only by Federal deficits, currently represent on the average 30 percent of State budgets. Because many of these programs require State matching funds, State budgets and State taxes steadily increase. And because the states cannot finance related capital expansion projects from current receipts, their debts increase as well. The situations facing New York City and New York State illustrate clearly the cumulative impact of years of excessive federal stimulation on state and municipal budgets.

Heavy federal financial stimulation has had other more specific implications for the states.

Federal grant-in-aid programs still largely tend to serve narrow categorical purposes despite our progress toward block grants and revenue sharing. To provide matching funds, the states often must spend dollars to satisfy needs which are relatively low in their priorities. It is hard for a governor to propose to his citizens that the state should reject a large federal grant because it may require inefficient state spending.

The ease with which the federal government can generate expenditures does not encourage long range planning. Federal funds often are imposed quickly upon the states without adequate recognition of the time that the states need to plan for the financing of their matching expenditures. A requirement to balance the

federal budget would greatly restrain this federal tendency, and make federal officials much more sensitive to the kinds of financial limitations familiar to state governments.

Maintenance of effort requirements in federal programs have enabled the federal government to lower its contributions to national programs while the states. to continue receiving the reduced federal funds, must increase their expenditures to maintain the level of effort of the preceding fiscal year. In a similar vein, the federal government through regulatory or statutory actions will alter matching ratios for grant programs and thus force increased expenditures by the states even in the absence of a maintenance of effort requirement. Again, the federal government has become insensitive to the need to weigh carefully the relationships between revenues and expenditures.

The states have not remained silent in the face of these federal practices which can be traced directly to deficit financing.

Idaho memorialized the Congress on behalf of deficit limits in 1963 as did Oklahoma in 1974. This year Arkansas, Mississippi and Virginia presented memorials to prohibit deficit spending.

The National Governors Conference reports that several state legislatures are now considering memorials on behalf of a balanced federal budget.

State Governors and State legislators are beginning to act in concert on this question. On August 1, 1975, the Southern Legislative Conference of the Council of State Governments at its 29th meeting at Williamsburg, Virginia, adopted this resolution:

"The Southern Legislative Conference of the Council of State Governments respectfully petitions the members of the Congress of the United States to take affirmative action and place before the states a Constitutional amendment which would require a balanced federal budget except in times of a national emergency, declared by the President and concurred in by Congress."

On September 15, 1975, at Atlanta, Georgia, the Southern Governors Conference adopted the following resolution:

"The Southern Governors express unified and deep concern over the adverse economic impact of both the ever-growing size of the Federal Budget and this nation's chronic pattern of deficit spending.

"It has become increasingly clear to all that:

"First . . . large, growing, and continual deficits not only encourage inflation, but are one of the major causes of inflation.

"Second . . . due to the very size of Federal government spending, there are insufficient capital resources remaining in the private sector to insure creation of an adequate number of jobs and increase the productive capacity of our nation.

"We endorse the concept of a federal constitutional amendment requiring a balancing of the federal budget within a specific multi-year period, providing for a temporary suspension during war or national economic emergency, with such temporary deficit to be repaid within a period of 20 years, and providing for the granting of standing to any state to bring suit to secure compliance with the amendment.

"We also recognize that the states must bear part of the responsibility for creating pressures resulting in excessive federal spending, and we pledge our best efforts to support the spirit of this amendment by restraining our own demands for federal spending."

Mr. Chairman, the facts on memorials presented to Congress and the texts of the two resolutions speak for themselves. Will Congress respond? Some may say that we should wait for more memorials to test state interest. My response is that even if Congress had no memorials at hand, it would have no valid reason for not referring the question of a balanced federal budget to the states. Federal deficit financing threatens the stability of our constitutional system. The integrity of our fundamental law is at stake. This is very much a basic and proper concern of the states.

The memorials and resolutions received merely underscore the need to respond now in federal terms. I do not believe it is proper for Congress to address the question within its own walls. The sovereign states are speaking out and a Congressional response is imperative.

Mr. Chairman, I have stated by conviction that Congress will not impose balanced federal budgeting by statute. I am also convinced that by rejecting that course, Congress is obliged to refer the matter to the states in the form of a proposed constitutional amendment. The step should be taken now. It is long overdue.

Senator THURMOND. Thank you, sir. Do you have any questions, Senator Curtis?

Senator CURTIS. Senator Hruska, you have served a long time in the Appropriations Committee and have been in contact with Governors and State officials and have served in a capacity of importance in local government. Is it true that the spending rate in Washington, the number of programs that Congress inaugurates force a level of spending on all of the States and many of the localities that they must cope with, whether they particularly choose it or not? Is that right?

Senator HRUSKA. There is no question but that is true. It is a long-time phenomenon in my office, and I am sure it is in yours. We constantly receive letters from State legislators saying that Federal programs are a decided burden upon them. Many of the programs have great popular appeal and yet they are not long enduring. They are not worth the money, in other words. But, because of the public pressure, the States are compelled to match the Federal grants. And the burdens upon the States are increasingly great and indeed most frustrating.

Senator CURTIS. And the more Federal programs that call for some sort of matching on the part of the States, the less the Governors and the State legislatures will have to say about their own budgets. Is that not correct?

Senator HRUSKA. No question about it. There is an invasion of jurisdiction from outside the State and it is not wholesome.

Senator CURTIS. From your long experience in government, do you have an opinion on this? Suppose our States did not have constitutional restraints against going in debt, would they be as free from debt today as they are?

Senator HRUSKA. They would not. I fear they would be in the same predicament we are, except that the penalties there are greater and more immediate because the States would then find it impossible to market their bonds. And goodness only knows what the ultimate result would be if it were not for the constitutional restraints presently governing.

Senator CURTIS. That is all, Mr. Chairman.

Senator THURMOND. Senator, the recent crisis in New York City, I presume from what you have said, would be an example of what you are talking about.

Senator HRUSKA. It is generally believed to be true and I subscribe to that view.

Senator THURMOND. Do you feel that the Federal Government should assume any responsibilities of the States or the cities of this Nation when those cities or States spend more than their income?

Senator HRUSKA. Well, that is a question which involves the possible aftermath. Perhaps a good case could be made for a city, but we have many cities. The Federal Government and the Republic are great, and wealthy, and powerful. But they are not so all-encompassing in their resources that they could stand the strain indefinitely of enlarging the list of cities and States which would call upon the National Government for financial relief.

Senator THURMOND. There is no provision in the Constitution of the United States that makes the Federal Government responsible though for assuming the obligations of the States or any local communities, is there?

Senator HRUSKA. Not that I am aware of, Mr. Chairman.

Senator THURMOND. And unless there was authority to do it under the Constitution, they would not have the right to do it, would they?

Senator HRUSKA. That is right.

Senator THURMOND. Of course, I realize since you and I have been here—I have been here 21 years, you a few years longer, Senator Curtis still longer—that the Congress has gone into so many fields of activity where it did not have constitutional authority that maybe that is nothing new. But that is one of the troubles that we are in today. Is it not?

Senator HRUSKA. I think that is right.

Senator THURMOND. I want to congratulate you for your long and distinguished service in the Senate and I will have more to say before you leave the Senate this year, but I just want to say that your departure is going to be a great loss to this country. And we regret that you have seen fit to retire this year.

Thank you very much for your testimony.

Senator HRUSKA. The chairman is very kind and I thank him.

Senator THURMOND. Our next witness is Dr. Roger Freeman, Hoover Institution, Stanford University, Stanford, Calif.

Come along, Dr. Freeman, we are glad to have you with us.

STATEMENT OF ROGER A. FREEMAN, SENIOR FELLOW EMERITUS, HOOVER INSTITUTION ON WAR, REVOLUTION, AND PEACE, STANFORD UNIVERSITY, STANFORD, CALIF.

Dr. FREEMAN. Thank you, Mr. Chairman.

Mr. Chairman, members of the committee, I am Roger A. Freeman. I am senior fellow emeritus of the Hoover Institution on War, Revolution and Peace at Stanford University. Any opinions I may express, of course, are my own and should not be attributed to any of the organizations with which I am or was connected.

Senator THURMOND. Do you desire to read your statement or do you want to just put it in the record in full and then comment off the cuff?

Dr. FREEMAN. With your permission, Mr. Chairman, I would like to read part of it and summarize other parts of it.

Senator THURMOND. All right.

Dr. FREEMAN. Many years ago the citizens of most States placed strict constitutional restrictions on the ability of their elected officials—Governors and legislators—to incur debt on behalf of their States. As a rule now, the State's credit can be committed only with the approval of the people themselves, voting at a general or special election on a specific proposal to issue bonds. This has subjected State borrowing to a close scrutiny by the taxpayers and has restrained it. But it has not prevented it nor crippled State fiscal capacity. To wit: State indebtedness has grown by $36 billion over the past 10 years.

Federal indebtedness will at the end of the current fiscal year, total nearly $300 billion more than it did 10 years earlier. This was possible only because there are at this time no constitutional restrictions on the incurrence of debt by the Federal Government. Does the extraordinary and unprecedented jump at the Federal level, compared with only a moderate rise at the State level, not suggest that maybe the American people put the muzzle on the wrong dog? Does it further

suggest that the time may have come to fashion a muzzle for the dog who seems to need such restraint? The question now is, if you pardon the mixed metaphors and species, How to bell the cat.

Some close observers have expressed the fear that a continuation of current trends in the public debt may lead to Federal bankruptcy. But, there is really no reason to be afraid. The Federal Government cannot go bankrupt because it can always print all the money it needs to meet its obligations and then repay its creditors in dollars that are worth but a fraction of the dollars it borrowed many years before. Some may take a dim view of such a method to defraud those who entrusted their savings to the Federal Government. Others will simply regard this as clever money management.

What is to be feared is not Federal bankruptcy but runaway inflation. Ever-expanding deficit spending and enlarged money supply are bound to produce inflation, as they have done countless times in a devastating manner over the past 1,000 years, from China to Latin America, from Persia to France and Germany. And when the money lost most or all of its value, run-away inflation often not only ruined a country economically, but led to social unrest, violent upheaval, revolution and even destruction of the society. More than any other single factor it was the German superinflation of the 1920's which broke the middle class and killed its belief in the justice of the existing social order that brought Hitler to power.

Inflation is not that rapid in the United States, at least not yet. But it is progressive like pregnancy—there is just no such thing as a little pregnancy. The Consumers Price Index rose 18 percent between 1955 and 1965 but it jumped to 70 percent between 1965 and 1975. At that rate, a dollar saved today will lose 93 cents over the next 50 years. Which young person would want to save a dollar to get 7 cents back in his later years?

The danger of runaway inflation in the United States was widely regarded to be minimal or nonexistent during the late 1950's and early 1960's when annual price rises averaged between 1 and 2 percent a year. Thus, proposals in those years to restrict the Federal debt—advanced by the sponsor of the currently pending SJR 55, Senator Carl T. Curtis, with Senators Styles Bridges, Harry F. Byrd, and others—did not gain sufficiently broad support and failed of adoption. The doubling of the Federal debt in recent years has revived the issue and made it more pertinent and urgent than ever. No one has belittled inflation in recent years or derided it as an imaginary, remote or minor danger.

But some of my fellow economists have been and still are saying that budgetary deficits and growth in the Federal debt are not responsible for inflation and are really nothing to worry about. Some even assert that current deficits are not big enough to deal effectively with lagging economic growth and cure unemployment. Some of the facts they cite are these: The Federal debt has grown more slowly than the gross national product, the GNP. It has declined as a percentage of GNP from 49.4 percent in 1965 to 38 percent at the end of the current fiscal year. Federal debt equaled 129 percent of GNP at the end of World War II and the economy did not collapse. Moreover, private debt, individual and corporate, not only totals more than the Federal debt, but also has grown by much more.

There are so many things wrong with these statements that it would take a sizeable article to disprove them. The most important: The figure commonly shown as Federal debt is only the debt subject to the so-called debt ceiling which excludes huge obligations of the Federal Government. The independent debt of Federal agencies, such as Export-Import Bank, TVA, et cetera, totals over $11 billion. The debt of Government-sponsored enterprises, such as FNMA, Farm Credit Administration, Federal Home Loan Bank Board, et cetera, another $88 billion; loans guaranteed by the Federal Government, FHA, Veterans' Administration, Farmers Home Administration, GNMA, et cetera, $237 billion.

But by far the biggest unfunded liabilities of the Federal Government are for social security and civil service and railroad retirement, veterans' pensions, et cetera which are estimated to total over $3 trillion.

Counting all Federal commitments, the Federal debt is substantially higher than the private debt and has grown faster. What is particularly significant: It was the expansion of the Federal debt and resulting inflation which are largely responsible for the steep growth in the private debt in recent years.

Some of my fellow economists will tell you that Federal deficits may have an inflationary impact during periods of rapid economic expansion when there may be a strain on available resources, but that they are decidedly noninflationary at times when the national economy is running substantially below capacity and unemployment is high. That in fact, they say, is a time when large deficits are needed to compensate for the lag in the private economy and to prime the pump.

The theory of compensatory fiscal policy, of the Government leaning against the wind, was developed in the 1930's and reached its widest acceptance in the postwar period. The Government, it is said, should balance the economy not its budget. The trouble is that in actual practice the fiscal policy of fine tuning turned out to possess only a one-way flexibility: Huge deficits at times of economic slack but no surpluses during periods of rapid growth. The past 15 years include 14 years with a deficit, only one, due to special circumstances, with a surplus.

A new theory was developed a few years ago: That the budget should be balanced only on the assumption of full employment. This was called a more sophisticated fiscal policy than actual budget balance. In truth, it is pure sophistry, an alibi attempting to rationalize budgetary deficits in a pseudoscientific way and make them respectable. It is a magician's trick to have deficits disappear from vision, now you see them, now you don't.

Congress can make or repeal all laws. But it cannot repeal the law of supply and demand. When Congress tried, the invisible hand reached out and dealt the economy a devastating blow.

Despite farfetched theories, the huge Federal deficits of the late 1960's and of the 1970's were followed by rapid inflation. Then the search began for convenient scapegoats: The venal greed of big corporations and big labor, drought and floods, the Arab oil sheikh's and other cartels, and many others. Some of these factors undoubtedly have contributed to inflation. Labor's ability with governmental support to exact wage boosts in excess of productivity growth, which

raised labor's share from 67.8 percent of the national income in 1955 to 75.8 percent in 1975—first half—have pushed up costs and prices, besides driving unemployment to higher levels.

Contrary claims notwithstanding, higher profits have not contributed to inflation, as is evident from the fact that proprietors' and corporate profits dropped from 26.7 percent of national income in 1955 to 15.8 percent in 1975—first half. In other words, the share of profits is 40 percent lower than their share 20 years ago. Profits have fallen to a level that is much too low to attract needed capital. This, in conjunction with a perverse tax policy which favors consumption and penalizes capital formation, has resulted in a far lower rate of investment in the United States than in other industrial nations. Because job creation requires huge industrial investments, $25,000 to $50,000 per job and more, which at current profit levels are simply not available in sufficient magnitude, unemployment climbed and is considerably higher in the United States than in other Western nations.

By its huge claims for money, government has not only driven up the interest rate but increasingly crowded out private demands on the capital markets in recent years. The Treasury Department's Bureau of Debt Analysis released some figures earlier this year according to which the Federal Government accounts for 68 percent of the capital markets in the current fiscal year, compared with a mere 20 percent in the fiscal years 1955–59. All government borrowing, combining Federal, State, and local, will account for 80 percent of the capital markets in fiscal year 1976. This does not necessarily mean that the Federal Government will actually take 68 percent of the available funds and private borrowers get only 20 percent. More likely, the Federal Government will cover a substantial part of its deficits by monetizing it, that is, by financing it through the Federal Reserve System and expanding the money supply.

Testifying before the House Budget Committee a week ago, on September 29, 1975, Treasury Secretary Simon suggested that his warning issued earlier in the year had been borne out and has now become a reality: Unprecedented Government borrowing is drawing away funds for housing and business investment thus weakening the economic system. Treasury note sales in September 1975 produced an interest rate of 8.44 percent, a much higher return than banks or savings institutions can offer. With a budget deficit well over $70 billion in the current fiscal year, and estimated to run between $35 and $50 billion and maybe more in fiscal year 1977, prospects for an easing of pressures are bleak.

It is small wonder that in the squeeze between a tight capital market, higher costs, and a punitive tax policy, private industry which produces almost all of the goods and services consumed by the American people or exported, provides most of the jobs and is expected to supply more job opportunities for our still growing population, is unable to create enough job openings. Thus, high unemployment is and continues to be a fact of American life. Attempts to reduce unemployment by Government spending and deficits is simply adding fuel to the fire of inflation and, in the long run is self-defeating. Thus, we can enjoy inflation plus unemployment, now termed stagflation.

Attempts to control inflation by wage and price controls were found to have a shortlived effect. Such controls can only be temporarily effective in supplementing sound fiscal monetary policies. They cannot substitute for them.

History supplies innumerable examples of rulers who tried to suppress the results of their own expansive policies by imposing price controls. Without going over this in further detail I can simply say that those attempts never succeeded.

When government points in various directions in trying to identify and blame a culprit for inflation it acts like a pickpocket who, running away from the crowd, points ahead and shouts, "hold the thief." The fact remains that only government can create inflation and only government can stop it by keeping budgets and money supply under control. Inflation is largely the result of monetized budget deficits and cannot be arrested without correcting the underlying evil: budgetary deficits.

A few years ago, in a speech which was in the Congressional Record on March 2, 1970. I explained further why inflation is so hard to control, and I just want merely to summarize it.

The fact is that most people enjoy their share of inflation, that is their individual slice of the expanded money supply in the form of an income, whether from wages or from independent activity that grows faster than their productivity.

What they do not like is the consequences of inflation which is higher prices. It is not the overeating or the drinking we dislike—it is the hangover, the indigestion, the obesity we fear; but too often fear not enough to abstain from drinking or overeating. This looks like a case of being able to resist everything save temptation.

Now, when I made those statements, I was serving as a Special Assistant to the President and had to be more circumspect in my utterances than I can be now, after returning to an environment where I enjoy academic freedom. A few months ago the Hoover Institution published a book on which I had been working for several years, entitled. "The Growth of American Government: A Morphology of the Welfare State." In that book I described the expansion of governmental activities in the United States in terms of public employment and finances over the 20-year period 1952 to 1972. I would like to summarize, with your permission, some of my findings as they appear in the cited book.

The significant change that took place over that 20-year period was not so much in the overall total of Federal spending but in its composition. Outlays for national defense dropped from 13.5 percent of GNP to 6.8 percent, or to about half their former size. They may be estimated below 6 percent of GNP in the current fiscal year. Spending for domestic purposes simultaneously jumped from $12.3 billion to $130.9 billion; as a percentage of GNP they went from 3.6 percent to 11.3 percent. They may be estimated at 14 percent in the current fiscal year.

To put this in clear perspective, it took 163 years, from 1789 to 1952 for Federal expenditures for domestic purposes to reach a level of $12 billion. In the succeeding 20 years, they multiplied more than tenfold, from $12 billion to $131 billion. In other words, in those two decades Federal spending increased every 2 years by as much as the total growth in the preceding 163 years.

By far, the sharpest increases occurred in health, education and welfare. I do not want to quote all of the figures at this point. They are in my written testimony.

Now, the ominous fact in terms of future trends is that in the three fields which experienced by far the steepest increase in the cited 20-year period, there is strong pressure for even greater expansion. To give you just a few facts: Spending for health, education and welfare by all governments, Federal, State and local combined, grew 833 percent between 1952 and 1972 while the aggregate of all other public expenditures increased only 164 percent, about one-fifth the rate, which is less than the simultaneous growth of the national economy. Although evidence is at best spotty about positive results from new or expanded Federal programs in the social welfare fields, there is now enormous pressure for vast new Federal programs of that type. A national health program has been pending for yeaars, enjoys broad support and could be enacted within the next few years at an annual cost of several dozens of billions of dollars, with a tendency for continued sharp increases judging by the experience of countries which operate such programs.

Guaranteed annual income has been proposed and came close to enactment in 1971 and 1972. We are fortunate the Senate stopped it. It is now again being advanced by powerful forces and would, if approved, add many billions to the annual welfare budget. Federal aid to education at the common school as well as the college level has been pushed by strong national organizations for well over 100 years and came close to realization on several occasions. With total expenditures for education in the United States now exceeding $100 billion a year, the activation of such programs could add enormous sums to the Federal budget. Numerous other proposals are being pushed by potent forces for urban transportation, for general municipal purposes, for environment, for energy development, which, if approved, could balloon the Federal budget further and make a budgetary balance well nigh impossible for many years, if ever.

Will Congress be able to resist those spending pressures? Past experience with attempts at fiscal discipline give little cause for optimism. Debt ceilings which first came into use during World War I have proven to be so flexible—being upped once or several times each year in recent times—as to be totally ineffective. The process of raising the debt limit has become a frequent ritual that is being carefully observed but is nearly meaningless. Since all expenditures must first be approved by Congress, it is virtually useless to go through the process of setting a debt limit that is entirely at the discretion of the Congress.

Budget reform, enacted in 1974, was expected by some to exercise a restraining influence. But it is apparent now that this will not be the case. Committee recommendations suggest far higher spending than proposed by the President—a 21.1 percent boost in the nondefense area versus an 11.9 percent increase in the President's budget—and a deficit well over $20 billion higher than recommended by the President. The veto that can be placed on Presidential attempts at saving money through impoundment suggests that expenditure savings were not a consideration in shaping this budget reform.

Even if the budget and appropriations committees were austerity minded, there is a serious question of how effective they could be in

keeping spending down. Only a minor part of the budget is subject to control through the budgetary and appropriation process. Some of the largest Federal programs are open ended and expenditures are controlled by the authorizing legislation, thus virtually exempt from the budget review.

Nearly three-fourths of all budget outlays in fiscal year 1975 are labeled "relatively uncontrollable," the percentage having gone up from 59.3 percent of the total budget in fiscal year 1967 to 73.5 percent in fiscal year 1975. The significant fact is that while two-thirds of the defense outlays are designated controllable, only 12 percent of the nondefense outlays, mostly for domestic services, are reported to be relatively controllable.

As I showed earlier, it is the domestic programs that have expanded at an extraordinary rate in recent decades and 88 percent of them are now untouchable by would-be budget cutters. Many benefits are set by law, such as social security and retirement pay, medicare, food stamps, veterans' benefits, revenue sharing; interest is set by contracts. Public assistance, medicaid, and unemployment assistance are reimbursements to States by formulas. With 67 percent of proposed defense expenditures controllable, but only 12 percent of the nondefense items controllable, it is understandable that efforts to cut the budget usually concentrate on defense.

To be sure, all Federal expenditures were authorized by the Congress at some time and, with the exception of prior existing obligations and contracts, can be controlled by it through changes in the substantive program legislation. The question is whether Congress is able to constrain expenditures by its own power. The normal restraint at State and local levels is the necessity to either raise taxes or issue bonds to finance new or expanded programs. Boosting taxes is a politically painful and risky process which provides a natural screening for outlays which the taxpayers regard worth their hard-earned money. Borrowing on the States' credit, is subject to a direct veto by the voters. At the Federal level, there is no limit to debt financing which is too remote for the average voter to know about, although he may subseuently be painfully affected by the resulting inflation.

Experience with Federal debt ceilings, easily changed by an act of Congress, has proven them to be singularly ineffective. Thus, an outside force is needed to enforce the fiscal discipline which Congress itself cannot exercise. Only the Constitution can provide such outside discipline.

The early State constitutions contained no debt limitations. But painful experiences with expansive policies in the 1830's and 1840's led to the imposition of restraints in most States. Trends of recent years suggest that some restraint is now needed at the Federal level.

There are several ways in which the U.S. Constitution could restrain the Congress from expanding Federal indebtedness. It could require, as most State constitutions do, that new obligations or an increase in obligations must be approved by the voters themselves. In this age of rapid communications and electronic technology, the holding of a national referendum would be no major obstacle. Nor would the cost be large when related to the magnitude of the amounts and the importance of the substance involved.

Switzerland has long been conducting national referendums on major controversial issues and Great Britain did so earlier this year. Over a century of experience with many thousands of State and local debt and tax referendums shows that the voters well understand the alternatives and that a review, or veto, can be very healthy. Popular government rests on the premise that the people can understand and judge vital public issues.

Another way of controlling further expansion of the national debt is the method proposed in Senate Joint Resolution 55. By computing at the end of each fiscal year the net result of the fiscal operations and imposing a surtax on the income to make up for a deficit seems to be a far better way of bringing the realities of Federal operations home to the taxpayer than to let him find out much later through inflation and higher prices.

There are various other ways toward the same end, some of which are incorporated in proposals introduced in earlier years or now pending. I am not committed to any particular form of debt control but feel that in view of the huge debt expansion in recent years, some form of restraint is urgently needed.

Thank you, sir.

[The prepared statement of Roger A. Freeman follows:]

STATEMENT OF ROGER A. FREEMAN,[1] SENIOR FELLOW EMERITUS, HOOVER INSTITUTION ON WAR, REVOLUTION AND PEACE, STANFORD UNIVERSITY, ON SENATE JOINT RESOLUTION 55

Many years ago the citizens of most states placed strict constitutional restrictions on the ability of their elected officials—governors and legislators—to incur debt on behalf of their states. As a rule now, the state's credit can be committed only with the approval of the people themselves, voting at a general or special election on a specific proposal to issue bonds. This has subjected state borrowing to a close scrutiny by the taxpayers and has restrained it. But it has not prevented it nor crippled state fiscal capacity. To wit: state indebtedness has grown by $36 billion over the past ten years.

Federal indebtedness will at the end of the current fiscal year total nearly $300 billion more than it did ten years earlier. This was possible only because there are at this time no constitutional limitations on the incurrence of debt by the Federal Government. Does the extraordinary and unprecedented jump at the Federal level, compared with only a moderate rise at the state level, not suggest that may be the American people put the muzzle on the wrong dog? Does it not further suggest that the time may have come to fashion a muzzle for the dog who seems to need such restraint?

The question now is, if you pardon the mixed metaphors and species, how to bell the cat.

Some close observers have expressed the fear that a continuation of current trends in the public debt may lead to Federal bankruptcy. But, there is really no reason to be afraid. The Federal Government cannot go bankrupt because it can always print all the money it needs to meet its obligations and repay its creditors in dollars that are worth but a fraction of the dollars it borrowed many years before. Some may take a dim view of such a method to defraud those who entrusted their savings to the Federal Government. Others will regard this as clever money management.

What is to be feared is not Federal bankruptcy but run-away inflation. Ever-expanding deficit spending and enlarged money supply are bound to produce inflation—as they have done countless times in a devastating manner over the past one thousand years—from China to Latin America, from Persia to France and Germany. And when the money lost most or all of its value, run-away inflation often not only ruined a country economically but led to social unrest, violent

[1] Any opinions I may express are my own and should not be attributed to any organization with which I am or was concerned.

upheaval, revolution and even destruction of the society. More than any other single factor it was the German superinflation of the 1920s which broke the middle class and killed its belief in the justice of the existing social order that brought Hitler to power.

Inflation is not that rapid in the United States—at least not yet. But it's progressive like pregnancy—there is just no such thing as a "little" pregnancy. The Consumers Price Index rose 18 percent between 1955 and 1965 but jumped 70 percent between 1965 and 1975. At that rate, a dollar saved today will lose 93 cents over the next fifty years. Which young person would want to save a dollar to get 7 cents back in his later years?

The danger of run-away inflation in the United States was widely regarded to be minimal or non existent during the late 1950s and early 1960s when annual price rises averaged between one and two percent a year. Thus proposals in those years to restrict the Federal debt—advanced by the sponsor of the currently pending SJR 55 Senator Carl T. Curtis, with Senators Styles Bridges, Harry F. Byrd and others—did not gain sufficiently broad support and failed of adoption. The doubling of the Federal debt in recent years has revived the issue and made it more pertinent and urgent than ever. No one has belittled inflation in recent years or derided it as an imaginary, remote or minor danger.

But some of my fellow economists have been and still are saying that budgetary deficits and growth in the Federal debt are not responsible for inflation and are really nothing to worry about. Some even assert that current deficits are not big enough to deal effectively with lagging economic growth and cure unemployment. Some of the facts they cite are: the Federal debt has grown more slowly than the Gross National Product (GNP). It has declined as a percentage of GNP from 49.4 percent in 1965 to 38.0 percent (estimated) at the end of the current fiscal year. Federal debt equalled 129 percent of GNP at the end of World War II and the economy did not collapse. Moreover, private debt, individual and corporate, not only totals far more than the Federal debt but also has grown by much more.

There are so many things wrong with these statements that it would take a sizable article to disprove them. The most important: the figure commonly shown as Federal debt is only the debt subject to the so-called debt ceiling which excludes huge obligations of the Federal Government. The "independent" debt of Federal agencies (Export-Import Bank, TVA, etc) totals over $11 billion, the debt of Government-sponsored enterprises (FNMA, Farm Credit Administration, Federal Home Loan Bank Board, etc) another $88 billion, loans guaranteed by the Federal Government (FHA, Veterans Administration, Farmers Home Administration, GNMA, etc) $237 billion. But by far the biggest unfunded liabilities of the Federal Government are for Social Security and Civil Service and Railroad retirement, veterans' pensions, etc. which are estimated to total over $3 trillion. Counting *all* Federal commitments, the Federal debt is substantially higher than the private debt and has grown faster. What is particularly significant: it was the expansion of the Federal debt and resulting inflation which are largely responsible for the steep growth in the private debt in recent years.

Some of my fellow economists will tell you that Federal deficits may have an inflationary impact during periods of rapid economic expansion when there may be a strain on available resources but that they are decidedly noninflationary at times when the national economy is running substantially below capacity and unemployment is high. That in fact, they say, is a time when large deficits are needed to compensate for the lag in the private economy and to "prime the pump".

The theory of compensatory fiscal policy of the government "leaning against the wind" was developed in the 1930s and reached its widest acceptance in the postwar period. The Government should balance the economy not its budget. The trouble is that in actual practice the fiscal policy of fine-tuning turned out to possess only a one-way flexibility: huge deficits at times of economic slack but no surpluses during periods of rapid growth. The past fifteen years include fourteen years with a deficit, only one, due to special circumstances, with a surplus.

A new theory was developed a few years ago: that the budget should be balanced only on the assumption of full employment. This was called a more sophisticated fiscal policy than actual budget balance. In truth, it is pure sophistry, an alibi attempting to rationalize budgetary deficits in a pseudo-scientific way and make them respectable, a magician's trick to have deficits disappear from vision. "Now you see them, now you don't".

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Despite far fetched theories the huge Federal deficits of the late 1960s and of the 1970s were followed by rapid inflation. Then the search began for convenient scapegoats: the venal greed of big corporations and big labor, drought and floods, the Arab oil sheikhs and other cartels and many others. Some of these factors undoubtedly have contributed to inflation. Labor's ability—with governmental suppport—to exact boosts in excess of productivity growth, which raised labor's share from 67.8 percent of the National Income in 1955 to 75.8 percent in 1975 (first half) have pushed up costs and prices—besides driving unemployment to higher levels.

Contrary claims notwithstanding, higher profits have not contributed to inflation—as is evident from the fact that proprietors' and corporate profits dropped from 26.7 percent of National Income in 1955 to 15.8 percent in 1975 (first half). Profits have fallen to a level that is much too low to attract needed capital. This—in conjunction with a perverse tax policy which favors consumption and penalized capital formation—has resulted in a far lower rate of investment in the United States than in other industrial nations. Because job creation requires huge industrial investments—$25,000 to $50,000 per job and more—which at current profit levels are simply not available in sufficient magnitudes, unemployment climbed and is considerably higher in the United States than in other Western nations.

By its huge claims for money, government has not only driven up the interest rate but increasingly "crowded out" private demands on the capital markets in recent years. The Treasury Department's Bureau of Debt Analysis released some figures earlier this year according to which the Federal Government accounts for 68 percent of the capital markets in the current fiscal year, compared with a mere 20 percent in the fiscal years 1955–59. All government borrowing (Federal, State, local) will account for 80 percent of the capital markets in Fiscal Year 1976. This does not necessarily mean that the Federal Government will actually take 68 percent of the available funds and private borrowers get only 20 percent. More likely, the Federal Government will cover a substantial part of its deficits by monetizing it, that is by financing it through the Federal Reserve System and expanding the money supply.

Testifying before the House Budget Commitee on September 29, 1975, Treasury Secretary Simons suggested that his warning issued earlier in the year had been born and has now become a reality: unprecedented government borrowing is drawing away funds for housing and business investment thus weakening the economic system. Treasury note sales in September 1975 produced an interest rate of 8.44 percent, a much higher return than banks or savings institutions can offer. With a budget deficit well over $70 billion in fiscal year 1976 and estimated to run between $35 and $50 billion in fiscal year 1977 prospects for an easing of pressures are bleak.

Corporations of course also seek to borrow funds in the market, in competition with government. Because our laws tax profits in the form of dividends twice but permit the deduction of interest cost, there has long been a tendency toward debt financing by corporations and away from equity financing—a trend that is strengthened by a profits squeeze and the consequently depressed stock market.

It is small wonder that in the squeeze between a tight capital market, higher costs and a punitive tax policy, private industry which produces almost all of the goods and services consumed by the American people or exported, provides most of the jobs and is expected to supply more job opportunities for our still growing population, is unable to create enough job openings. Thus high unemployment is and continues to be a fact of American life. Attempts to reduce unemployment by government spending and deficits is simply adding fuel to the fire of inflation and, in the long run self-defeating. Thus we can "enjoy" inflation plus unemployment, now termed "stagflation".

Attempts to control inflation by wages and price controls were found to have a shortlived effect. Such controls can only be temporarily effective in *supplementing* sound fiscal-monetary policies. They cannot *substitute* for them.

History supplies innumerable examples of rulers who tried to suppress the results of their own expansive policies by imposing price controls. From Assyria's Hammurabi nearly four thousand years ago to Diocletian's edict more than two thousand years later and to numerous more recent control efforts, they have, despite even the most draconic sanctions never been more than a short-lived experiment which though sincerely begun soon led to the disappearance of desired goods, severe shortages, black markets, in some cases rationing, but almost always to economic stagnation and distress.

When government points in various directions in trying to identify and blame a culprit for inflation it acts like a pickpocket who running away from the crowd, points ahead and shouts: "Hold the Thief". The fact remains that only government can create inflation and only government can stop it by keeping budgets and money supply under control. Inflation is largely the result of monetized budget deficits and cannot be arrested without correcting the underlying evil: budgetary deficits.

Why has inflation proven to be so impervious to all attempts to stop it? Five years ago I tried to explain the reasons and with your permission I would like to quote what I said on that occasion (from the *Congressional Record*, March 2, 1970 pp E 1485–88 "Why Don't They Stop Inflation?"):

"If we conducted an opinion poll among a representative cross section of the American people, asking what their leading grievance is in the domestic policy area, we would today in most places get the answer: soaring prices.

"In letters to editors, in radio and TV interviews and on many other occasions, people keep asking, "Why don't they stop inflation?". "They" of course meaning the government. In a rare display of consensus, members of Congress of both political parties have been condemning inflation in vivid tones and demanding that it be ended forthwith. With everybody seemingly opposed to it, we may well wonder "Why don't they stop inflation?" Is there a sinister and clandestine lobby at work which keeps frustrating the will of the people?

It reminds me somewhat of the psychiatrist who when examining his patient inquired: "Are you troubled by improper thoughts?" to which the patient cheerfully replied: "No, I am not, Frankly speaking doctor, I rather enjoy them"

"That fact is that most people enjoy their share of inflation, that is their individual slice of the expanded money supply in the form of an income, whether from wages or from independent activity, that grows faster than their productivity. What they don't like is the consequences of inflation, which is higher prices. It is not the overeating or drinking that we dislike—it is the hangover, the indigestion, the obesity we fear, but too often fear not enough to abstain from drinking or overeating. This looks like a case of being able to resist everything save temptation.

"It is a natural and understandable tendency for people to try to offset the impact of higher prices by boosting their income and, albeit grudgingly spending more money instead of reducing their demands. It is as if at a football game we were not seeing well enough over the heads of the people in front of us and decided to stand up. We'll see better—temporarily. When the other people also stand up, as most likely they will, we and everybody else will see no better than we did before. More likely, we'll see less. If we then sit down, we'll see nothing. But how do we persuade the other people to sit down, too, so that we all can see at least something, in comfort? As so often it is much easier to get into trouble, then to get out of it, because few are eager to make the sacrifice of being the first to give in. How can we, in a free society, get concerted action by having all sit down at the same time?

When I made those statements I was serving as a Special Assistant to the President and had to be more circumspect in my utterances than I can be now, after returning to an environment where I enjoy academic freedom. Moreover, I have observed developments closely in the past five years and learned a great deal A main factor that keeps Federal deficit spending and therefore inflation at a high level is the far better organization and political effectiveness of the forces that are committed to and pressing for increased Federal spending, compared to the feeble efforts and relative impotency of the groups which favor budgetary restraint.

A few months ago the Hoover Institution published a book on which I had been working for several years: *The Growth of American Government: A Morphology of the Welfare State*. In that book I described the expansion of governmental activities in the United States in terms of public employment and finances over the 20-year period 1952 to 1972. I would like to summarize here some of my findings as they appear in the cited book.

Federal expenditures multiplied three and a half times between 1952 and 1972, from $71.0 billion to $244.6 billion. That just about paralleled the growth of the national economy. As a percentage of GNP, federal expenditures grew from 20.6 to 21.1 percent.

The significant change that took place over that 20-year period was not so much in the overall total of Federal spending but in its composition. Outlays for National Defense dropped from 13.5 percent of GNP to 6.8 percent—or about half

their former size. They may be estimated below 6 percent of GNP in the current fiscal year. Spending for domestic purposes simultaneously jumped from $12.3 billion to $130.9 billion; as a percentage of GNP they went from 3.6 percent to 11.3 percent. They may be estimated at 14 percent in fiscal year 1976.

To put this in clear perspective: it took 163 years, from 1789 to 1952 for Federal expenditures for domestic purposes to reach a level of $12 billion. In the succeeding twenty years they multiplied more than tenfold, from $12 billion to $131 billion. In other words, in those two decades Federal spending increased every two years by as much as the total growth in the preceding years. Even with a correction for the lower value of the dollar this still is probably the most spectacular and most significant change in governmental finances and in the nature and concept of American government in the twentieth century.

By far the sharpest increases occurred in health, education, and welfare:

FEDERAL EXPENDITURES 1952 AND 1972

	Expenditures (in millions)		Percent increase	Expenditures as a percentage of GNP	
	1952	1972	1952–72	1952	1972
Total expenditures	$71,045	$244,576	244	20.6	21.1
National defense	46,745	78,722	68	13.5	6.8
Domestic services	12,324	130,920	962	3.6	11.3
Education	323	6,551	1,928	.1	.6
Welfare	5,161	77,731	1,406	1.5	6.7
Health	431	14,492	3,262	.1	1.3
Other domestic services	6,409	32,146	402	1.9	2.7
Interest and other	11,976	34,934	191	3.5	3.0
Population of the United States (thousands)	157,553	208,842	33		
GNP (in billions)	$345.5	$1,155.2	234		
Consumer Price Index (1967=100)	79.5	125.3	58		

Source: National income and products accounts of the United States Survey of Current Business, Department o Commerce.

The ominous fact in terms of future trends is that in the three fields which experienced by far the steepest increase in the cited 20-year period, there is strong pressure for even greater expansion. Spending for health, education and welfare by all governments (Federal, state, local) grew 833 percent between 1952 and 1972 while the aggregate of all other public expenditures increased only 164 percent, which is less than the simultaneous growth of the national economy. Although evidence it at best spotty about positive results from never expanded Federal programs in the social welfare fields there is now enormous pressure for vast new Federal programs of that type. A national health program has been pending for years, enjoys broad support and could be enacted within the next few years at an annual cost of several dozens of billions of dollars, with a tendency for continued sharp increases judging by the experience of countries which operate such programs.

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Will Congress be able to resist those spending pressures? Past experience with attempts at fiscal discipline give little cause for optimism. Debt ceilings which first came into use during World War I have proven to be so flexible—being upped once or several times each year in recent times—as to be totally ineffective. The process of raising the debt limit has become a frequent ritual that is being

carefully observed but is early meaningless. Since all expenditures must first be approved by Congress it is virtually useless to go through the process of setting a debt limit that is entirely at the discretion of the Congress.

Budget reform, enacted in 1974 was expected by some to exercise a restraining influence. But it is apparent now that this will not be the case. Committee recommendations suggest far higher spending than proposed by the President—a 21.1 percent boost in the nondefense area versus an 11.9 percent increase in the President's Budget—and a deficit well over $20 billion higher than recommended by the President. The veto that can be placed on Presidential attempts at saving money through impoundment suggests that expenditure savings were not a consideration in shaping this budget reform.

Even if the budget and appropriations committee were austerity minded, there is a serious question of how effective they could be in keeping spending down. Only a minor part of the budget is subject to control through the budgetary and appropriation process. Some of the largest Federal programs are open-ended and expenditures are controlled by the authorizing legislation, thus virtually exempt from the budget review. Nearly three-fourths of all budget outlays in fiscal year 1975 are labelled "relatively uncontrollable", the percentage having gone up from 59.3 percent of the total budget in fiscal year 1967 to 73.5 percent in fiscal year 1975. The significant fact is that while two-thirds of the defense outlays are designated "controllable" only 12 percent of the nondefense outlays, mostly for domestic services, are reported to be "relatively controllable". As I showed earlier it is the domestic programs that have expanded at an extraordinary rate in recent decades—and 88 percent of them are now "untouchable" by would-be budget cutters. Many benefits are set by law—such as social security and retirement pay, medicare, food stamps, veterans benefits, revenue sharing; interest is set by contracts. Public assistance, medicaid, and unemployment assistance are reimbursements to states by formulas. With 67 percent of proposed defense expenditures controllable but only 12 percent of the nondefense items controllable, it is understandable that efforts to cut the budget usually concentrate on defense.

To be sure, all Federal expenditures were authorized by the Congress at some time and—with the exception of prior existing obligations and contracts—can be controlled by it through changes in the substantive program legislation. The question is whether Congress is able to constrain expenditures by its own power. The normal restraint at state and local levels is the necessity to either raise taxes or issue bonds to finance new or expanded programs. Boosting taxes is a politically painful and risky process which provides a natural screening for outlays which the taxpayers regard worth their hard earned money. Borrowing on the state's credit, is subject to a direct veto by the voters. At the Federal level there is no limit to debt financing which is too remote for the average voter to know about—although he may subsequently be painfully affected by the resulting inflation.

Experience with Federal debt ceilings, easily changed by an act of Congress, has proven them to be singularly ineffective. Thus an outside force is needed to enforce the fiscal discipline which Congress itself cannot exercise. Only the Constitution can provide such outside discipline.

The early state constitutions contained no debt limitations. But painful experiences with expansive policies in the 1830s and 1840s led to the imposition of restraints in most states. Trends of recent years suggest that some restraint is now needed at the Federal level.

The experience of state and local governments has shown that constitutional debt restrictions can be circumvented in many ways, particularly through revenue bonds and the establishment of special authorities. State courts have proven amazingly lenient in approving the "special fund doctrine" by which state and local governments have evaded constitutional restrictions. Thus federal legislation would have to be drawn rather carefully to prevent a rapid growth in backdoor spending and borrowing.

There are several ways in which the U.S. Constitution could restrain the Congress from expanding Federal indebtedness. It could require—as most state constitutions do—that new obligations or an increase in obligations must be approved by the voters themselves. In this age of rapid communications and electronic technology the holding of a national referendum would be no major obstacle. Nor would the cost be large when related to the magnitude of the amounts and the importance of the substance involved.

Switzerland has long been conducting national referendums on major controversial issues and Great Britain did so earlier this year. Over a century

of experience with many thousands of state and local debt and tax referendums shows that the voters well understand the alternatives and that a review (or veto) can be very healthly. Popular government rests on the premise that the people can understand and judge vital public issues.

Another way of controlling further expansion of the national debt is the method proposed in SJR 55. By computing at the end of each fiscal year the net result of the fiscal operations and imposing a surtax on the income to make up for a deficit seems to be a far better way of bringing the realities of Federal operations home to the taxpayer than to let him find out much later through inflation and higher prices.

There are various others ways toward the same end, some of which are incorporated in proposals introduced in earlier years or now pending. I am not committed to any particular form of debt control but feel that in view of the huge debt expansion in recent years some form of restraint is urgently needed.

Senator THURMOND. Dr. Freeman, your choice there is most interesting. You give it on page 10. A great many people have been deceived by statements of some people that national defense has caused this big deficit I observe here that you bring out that national defense for 1952 was $46,745 million, in 1972 $78,722 million, an increase of 68 percent, and domestic services in 1952 were $12,324 million, in 1972, $130,920 million, or an increase of 962 percent. In other words, from 1952 to 1972 defense increased 68 percent, domestic services increased 962 percent. Is that correct?

Dr. FREEMAN. Yes sir, that is correct.

Senator THURMOND. I just thought I would emphasize that. I want to thank you for your statement and your presence here. Senator Curtis may have some questions.

Senator CURTIS. Dr. Freeman, I want to thank you so much for being here. Your paper is excellent. I refrained from asking all the questions I would like to from my colleague and Senator Hruska and Dr. Harris because of consideration for other witnesses, and I will observe that rule throughout the day.

You have made some very important points in addition to what the distinguished chairman, Senator Thurmond has just pointed out. Is it not true our real spending problem does not evolve around general government but around the philosophy of providing for citizens. Is not that correct?

Dr. FREEMAN. That is absolutely correct, Senator. The fact that we have increasingly shifted responsibility from the individual or the family or the locality to the Federal Government where the money seems to come for free is at the core of it all, and the more some groups get it, the more other groups want it too. It seems to be very inviting. I think it just whets the appetite. There is simply no limit here, and we see the example in some countries that have gone even farther than we have, such as Great Britain, which is in very dire straits.

Senator CURTIS. In a little publication called "The U.S. Budget in Brief" that is gotten out once a year, in the front page they have a diagram of where the tax dollar goes. It shows that 39 cents of the tax dollar goes to benefits to individuals, 16 cents goes to States and localities, which makes a total of 54 cents. The States and localities pass on to individuals 5 cents of that so individuals are getting 44 cents out of every dollar, and then, when we add the necessary cost of defense, which has been declining, the interest on the national debt, general government does not take a big part of it.

Dr. FREEMAN. It is not general government, sir. In fact, this has basically changed the nature of the Federal Government. Originally

government was intended to provide protection against foreign enemies and security within the country, and to set the rules for civil transactions and settle disputes among the citizens.

Government, I believe, has neglected its responsibility for internal security and in consequence have been increasing rapidly over the years. Our defense position today is far worse than it was 20 to 25 years ago when we were at the apex of our power. The Government has expanded and changed its nature to assume many responsibilities which formerly were, and I believe should be, in the individual's field.

Senator CURTIS. You cited some very dramatic figures comparing the rate of inflation from 1955 to 1965 with 1965 to 1975, would you repeat that?

Dr. FREEMAN. The Consumer Price Index increased from 1955 to 1975 by 18 percent.

Senator CURTIS. You mean to 1965.

Dr. FREEMAN. I am sorry, 1965. From 1955 to 1965 by 18 percent; from 1965 to 1975 by 70 percent. It is at four times the rate.

Senator CURTIS. If something effective and emphatic is not done, are we apt to continue from 1975 to 1985 on the course that has been in operation the last 10 years?

Dr. FREEMAN. There seems to be nothing in the making right now that would change the trends. In fact, the pressures are, if anything, increasing for various programs, either current programs to be expanded, or new programs to be enacted. Unless something very drastic is done, I see no power that would stop or reverse or arrest, or even slow down, the present trend.

Senator CURTIS. One of the very encouraging things about this activity we are engaged in is the great support at the grassroots. I find that surveys indicate that individuals in all walks of life and individuals in various economic levels are concerned about Federal spending and the evils that result therefrom, and I believe that as so often happens, Washington is way behind the country in catching up on the thinking of the people.

Dr. FREEMAN. Yes, and I hope it will be brought home to Washington. If sufficient attention is being given to what is happening, the people become sufficiently concerned with what it will lead to if the trends in the policies are not changed.

Senator CURTIS. Thank you very much.

Dr. FREEMAN. Thank you.

Senator THURMOND. Dr. Freeman, I will ask you one more question.

Dr. FREEMAN. Yes, sir.

Senator THURMOND. There are various reasons assigned for inflation, but I believe it is your position, and I think you pointed it up here, that inflation results from excessive and irresponsible Federal spending; is that correct?

Dr. FREEMAN. To a large extent, yes.

Senator THURMOND. To a large extent more than anything else?

Dr. FREEMAN. It is not the only reason, but it is the major reason.

Senator THURMOND. That is fine. Thank you very much.

Dr. FREEMAN. Thank you, sir.

Senator THURMOND. Our next witness here is Mr. E. J. Faulkner, insurance company president from Lincoln, Nebr. Mr. Faulkner, would you come around.

STATEMENT OF EDWIN J. FAULKNER, PRESIDENT, WOODMEN ACCIDENT & LIFE CO., LINCOLN, NEBR.

Mr. FAULKNER. Thank you, Mr. Chairman, and Senator Curtis. My name is Edwin J. Faulkner. I am president of Woodmen Accident & Life Co., a mutual life and health insurer, whose home office is in Lincoln, Nebr. I thank the committee for its courtesy in permitting me to testify in support of the enactment of Senate Joint Resolution 55. I wish to emphasize, sir, that the testimony that I shall present reflects my personal views as a concerned citizen and as a businessman who for 40 years has had the responsibility of helping people achieve a measure of earned security through private life and health insurance. I do not assert that these views necessarily coincide with those of every insurer.

The business of private life and health insurance, on which some 190 million Americans depend for an important part of their financial security, is one that involves commitments that extend far into the future. People save to provide themselves and their families protection, through insurance companies, against the financial consequences of living too long, dying too soon, or being disabled. They are willing to save in reliance on the assumption that the dollars that the insurer promises for future delivery will be dollars whose purchasing power has not been destroyed.

Until 1965, this was a sound assumption; but during the past decade, we have witnessed a rapid erosion in the dollar's value because of an abandonment of the principle of Federal fiscal integrity and the practice of a balanced budget.

Since others, who have appeared before the subcommittee, have documented the terrifying and accelerating increases in Federal deficits reaching the astonishing sum of an estimated $70 billion for fiscal year 1976 on top of a $44 billion deficit in fiscal 1975, I shall not repeat the record. It is well known, and I am sure of great concern to you.

As one looks back across the years, it is informative of our present economic difficulties to discern how the world's mightiest nation came to its current impasse. In the wake of the Great Depression of the 1930's, the Federal Government in a policy designed to alleviate human distress and regenerate the economy undertook to assume much greater responsibilities for individual welfare and to assert a dominant role in the management of the economy. No matter how humanely intended, these measures were largely ineffective, and it took our involvement in World War II to reestablish a robust domestic economy.

However, the seeds of the attitude that the answer to every problem resides in Federal regulation, preemption, and largess had been planted. Despite this, in the two decades following World War II, the resurgence of an economy producing for peace proceeded at such a rate that it was able to sustain the increasing financial burdens shouldered by the Federal Government. In 1965, the tragic mistake was made of assuming that our Nation could pay the costs of the war in Southeast Asia and vastly expand already massive social welfare programs without compensating increases in taxes. These costs, of course, have been paid and will be paid, not from a forthrightly levied tax which permits the taxpayer to evaluate the programs for which he is paying,

but by inflation—the cruelest, most pervasive, and regressive tax of all. Since 1965, with the exception of a single year, the Federal Government has operated in the red. It has balanced income and outgo each year by borrowing the shortfall in revenues, thus placing a heavier and heavier mortgage on the Nation's future.

The interest service alone of that mortgage is now costing us $36 billion annually. The cost to every American of this long-continued Federal fiscal irresponsibility is revealed in the meteoric rise in the costs of living and doing business. According to the U.S. Department of Labor indexes, with the year 1967 equal to 100, wholesale prices have risen from 96.6 in 1965 to 176.7 in August 1975. In the same timespan, the Consumer Price Index rose from 94.5 to 162.8. Thus, in the decade, wholesale prices were up 83 percent and consumer prices up 72 percent.

A trained economist might prefer a more elegant and esoteric definition, but to me inflation is simply the condition in which too many dollars are chasing too few goods and services with consequent escalation of prices. In 1913, we established the Federal Reserve System among whose principal responsibilities is regulation and control of the supply of money and credit. For the most part, the Federal Reserve has served well, but its freedom to pursue judicious and desirable courses of action to maintain stable prices has been hamstrung by the necessity of funding the recurrent Federal deficits. The result has been a long-term trend in the expansion of money and credit in excess of the needs of the economy and additions to the burdensome costs of Government—all of which is directly responsible for the major inflationary thrust.

Inflation feeds upon itself. There is no universally available means by which it is possible to cope with inflation, and the mere existence of widely held inflationary expectations exacerbates the problem. For example, from time immemorial, interest, the charge made by lenders for the use of money, has been 3 percent to 3½ percent plus the rate of inflation then prevailing. As lenders look ahead and see no assurance that inflation will be contained, they seek to preserve their capital by insisting upon higher yields. Far from being a cause of inflation, deplorably high interest rates are a result, just as surely as $4.25 per bushel wheat is a result, not a cause, of inflation.

In like vein, when the laboring man demands increases in wages and fringe benefits that have little or no relationship to increases in productivity, he is reacting to inflation realized or expected. In both instances, the effect on the economy is a depressing one.

For several years, the Congress and the American people have been alarmed by the rapid rise in health care costs. Critics who gravitate to easy answers to complex problems accuse the providers of care and blame the system. The fact is that health care costs have zoomed primarily because of the inflation caused by unsound Federal fiscal and monetary policies. For example, 65 percent to 70 percent of the cost of providing a patient day of care in a general hospital is the cost of labor. In a labor market where wages reacting to inflation have been increasing from 8 percent to 12 percent or more a year, hospitals have had to meet the competition, and these higher costs are passed through to the patient.

Probably the most pitiful victims of inflation are our older people, widows and orphans, all those who are living on fixed incomes. By their providence and self-denial over a lifetime of saving, these senior citizens accumulated a modest estate which, without inflation, would have permitted them to live out their years in dignity and reasonable comfort. But for many, inflation has reduced their lot to little better than one of mere survival.

Congress, reacting to the impact of inflation on our principal class of pensioners, social security recipients, enacted ad hoc increases in benefits effective in 1965, 1968, 1970, 1971, and 1972. These increases exceeded the increase in living costs during those years. Additionally, in 1972, the Congress incorporated in the social security law formulas by which it was expected that future adjustments in the level of benefits and social security taxes, triggered by changes in prices and average earnings, would be achieved without further legislation. The first automatic increase became effective this year.

It was my privilege, Mr. Chairman, to serve as a member of the Advisory Council on Social Security whose report was filed with the Congress is March of this year. That experience quickened by understanding of how the manner in which price rises have outpaced increases in average earnings poses a serious threat to the solvency of the social security system unless the Congress takes timely action to raise social security taxes by at least 1 percent of taxable wages and remedies the defects that exist in the so-called automatic benefit adjustment factors.

In the last analysis, I think, sir, that no one would deny that national prosperity, as well as individual welfare, depend ultimately upon the production of goods and services. A healthy, growing and productive economy is the source of jobs, of profits, of tax revenues, national security, and an acceptable standard of living. When our real gross national product falters or stagnates, every segment of our society suffers. It is private enterprise, not government, that is the engine of production. Government can take from one and give to another, but adds nothing to national productivity. Funds siphoned off by government are capital that the economy sorely needs for investment to provide jobs, goods and services. On the average to provide one job in commerce, industry or agriculture, there must be an investment of more than \$25,000 in plant and equipment. Today we are told that in order to approach our economic potential, the staggering sum of \$4½ trillion must be accumulated and invested in the next 10 years. At present, our tax structure penalizes savings, profits, and capital accumulation and encourages spending for consumption. Because of this, capital fundraising is difficult, expensive, and, except for the most credit-worthy enterprises, sometimes impossible. The competition of government for such funds has become an added obstacle to raising capital for States, municipalities and private business.

In 1974, the Federal Government took \$12 billion out of a total of \$180 billion raised from the credit markets. In the second quarter of 1975, Federal credit demands soared to a \$93 billion annual rate out of total annual fundraising of \$210 billion. Over the past 10 years, Government spending, including transfer payments, has been expanding at a 9-percent annual rate, which is more than double the 4-percent rate for the private economy. The growth of Government spending lies at the heart of the strains on the capital market. Since the Federal Gov-

ernment will see to it that its capital needs are satisfied first, as these needs burgeon because of recurrent deficits and their inflation sequelae, the private sector is threatened with the inability to raise the capital it so badly needs. We have been consuming our seed corn for some years by our failure to save and invest enough to maintain and enhance our productivity capacity. Unless major steps are taken promptly to arrest preemption of the capital markets by the Government, the attrition of the economy will only intensify.

Senate Joint Resolution 55, calling for a constitutional amendment to require balanced Federal budgets except in times of a declared national emergency, proposes a sound and workable way to return the Government to a program of fiscal integrity. Its enactment would immediately defuse inflationary expectations, and its operation would lay the foundation on which long-continued stability, progress and prosperity could be achieved. The burdens of the public sector would be diminished as the private sector would assume its historic role of providing more and better jobs, a greater flow of better goods and services, a higher standard of living, and not, incidentally, a greater flow of tax revenues.

If, to some, the proposal seems objectionable because it would reduce congressional freedom of action, let it be remembered that ours is a government of delegated and reserved powers, a government of checks and balances. The Constitution has always contained limitations on what the various branches of government may and may not do. It would seem to me that the Congress should welcome this constitutional bulwark to its determination to govern wisely.

We well know of the insistent pressure of special interest groups on every Member of the Congress in support of particular projects. Many of these projects are highly desirable, but in their promotion their advocates too frequently are guilty of tunnel vision and are oblivious to the cumulative effect of countless such programs on our Government's credit and the economy.

To those who would argue that by reducing the flexibility of fiscal policy we hamper management of the economy, I would respond that by stabilizing one of the current variables with which the managers must contend, we free the Federal Reserve to implement monetary and credit policy, the other variable, in a far more effective manner than has been possible when the Federal Reserve action has been straightjacketed by the necessity of funding Federal Government deficits. The Congress is to be commended, sir, for taking the first step toward exercising fiscal responsibility by adopting the Congressional Budget and Impoundment Control Act of 1974. Passage of Senate Joint Resolution 55 is clearly the next step which should be taken.

Former Secretary of Health, Education, and Welfare, Hon. Caspar W. Weinberger, in his valedictory address before retiring from Federal service last July, commented to the Commonwealth Club of San Francisco that, and I quote:

> My single overriding observation after these years in Washington is of the growing danger of an all-pervasive Federal Government. Unless checked, that growth may take from us our most precious personal freedoms. It also threatens to shatter the foundations of our economic system. When I came to Washington in 1970, the Federal budget outlay stood at \$196.6 billion. It is now \$358.9 billion, an increase of 83 percent. Apart from its sheer magnitude the most noteworthy thing about this trend is that Federal spending has shifted away from tradi-

tional Federal functions such as defense and toward programs that reduce the remaining freedom of individuals and lessen the power of other levels of government. There is an overriding danger inherent in the growth of an American welfare state. The danger simply is that we may undermine our whole economy. If social programs continue growing for the next two decades at the same pace they have in the last two, we will spend more than half of our whole Gross National Product for domestic social programs alone by the year 2000.

That is the end of the quotation.

I most earnestly urge upon you, Mr. Chairman, and your colleagues in the Congress that heroic measures must be undertaken to end recurrent Federal deficits with their inevitable inflationary impact. Unless we face up to this responsibility now, the American dream will be lost forever.

Thank you, sir.

Senator THURMOND. Mr. Faulkner, I want to thank you very much. You made an excellent statement. We are delighted to have you with us. You come from a State that has two of the best Senators in the U.S. Senate.

Mr. FAULKNER. We believe so, Senator.

Senator THURMOND. Senator Hruska and Senator Curtis.

Senator CURTIS. Mr. Faulkner, as deficits grow and grow, you have pointed out that in order to finance those, Government takes a larger and larger share of the credit and the money that is available. Is that correct?

Mr. FAULKNER. Yes, sir.

Senator CURTIS. Then, when that is exhausted or depleted and American enterprise needs to expand to meet the national need, the inevitable suggestion is put forth that the Government will have to move in and finance an activity that should ordinarily be carried on by private enterprise, is that not correct?

Mr. FAULKNER. That is correct.

Senator CURTIS. So the next step in large government, in deficit government, is the growth of socialism, is that correct?

Mr. FAULKNER. Inevitably, Senator, just inevitably. If the savings that can be accumulated through the private sector are siphoned off by government, there is nothing left for private enterprise with which to build jobs, to improve plant, to better output.

Another result is that everything is owned by the Federal Government.

Senator CURTIS. And that, no doubt, is what Secretary Weinberger had in mind when he warned of the threat of it undermining our very economic system.

Mr. FAULKNER. Yes; as he pointed out in his splendid address to the Commonwealth Club, if the present trend continues, half of the American people will be working to support the other half. That would be intolerable. It would mean the end of private enterprise. It would mean that America had become a totally collectivistic nation.

Senator CURTIS. Now, when Congress moves in the direction of more Federal programs and to more Government, it may be believed by some that Congress is giving good things to the people, but actually that is not true. They are taking away from the people, are they not?

Mr. FAULKNER. That is quite so, sir. To the extent that Federal law or regulation interferes with the proper functioning—I emphasize proper—proper functioning of private enterprise, it diminishes job

opportunities, and it lowers the standard of living for us all.

Senator CURTIS. One other point—you made many wonderful points—but one other point I would like to stress is your point that over a period of time, the interest rate that we have to pay is 3½ percent plus the rate of inflation.

Mr. FAULKNER. That is correct, sir.

Senator CURTIS. In other words, if we had stability of our money, we could again be borrowing for needed purposes within our private enterprise system for about 3½ percent.

Mr. FAULKNER. Yes, sir, I have seen that time, and you have too, and I hope we can see it again. If prices are stable, if lenders feel that the future holds stability, that the capital will not be destroyed by inflation, historically they have been able and willing to lend at 3½ percent and can do so again.

Senator CURTIS. As a matter of fact, some insurance companies, not yours, made the mistake of guaranteeing loans to their policyholders at, say, 4 percent——

Mr. FAULKNER. Yes, sir.

Senator CURTIS [continuing]. Back in the days before we had this terrific——

Mr. FAULKNER. Well, of course under the life insurance contracts that have been issued, there is a guranteed rate of interest, currently 5 or 6 percent for policy loans.

Senator CURTIS. Well, I did not mean to invade the field of how to run an insurance company, but as citing the fact that before the most modern trends in inflation, individuals had opportunities and guaranteed opportunities to borrow money at very reasonable rates.

STATEMENT OF EDWIN J. FAULKNER

Mr. Chairman, my name is Edwin J. Faulkner. I am president of Woodmen Accident and Life Company, a mutual life and health insurer, whose home office is in Lincoln, Nebraska. I thank the subcommittee for its courtesy in permitting me to testify in support of the enactment of Senate Joint Resolution 55. I wish to emphasize that the testimony that I shall present reflects my personal views as a concerned citizen and as a businessman who for 40 years has had the responsibility of helping people achieve a measure of earned security through private life and health insurance. I do not assert that these views necessarily coincide with those of every insurer.

The business of private life and health insurance, on which some 190 million Americans depend for an important part of their financial security, is one that involves commitments that extend far into the future. People save to provide themselves and their families protection, through insurance companies, against the financial consequences of living too long, dying too soon, or being disabled. They are willing to save in reliance on the assumption that the dollars that the insurer promises for future delivery will be dollars whose purchasing power has not been destroyed. Until 1965, this was a sound assumption; but during the past decade, we have witnessed a rapid erosion in the dollar's value because of an abandonment of the principle of Federal fiscal integrity and the practice of a balanced budget.

Since others who have appeared before the subcommittee have documented the terrifying and accelerating increases in Federal deficits reaching the astonishing sum of an estimated $70 billion for fiscal year 1976 on top of a $44 billion deficit in fiscal 1975, I shall not repeat the record. It is well known and, I am sure, of great concern to you.

As one looks back across the years, it is informative of our present economic difficulties to discern how the world's mightiest nation came to its current impasse. In the wake of the Great Depression of the 1930's, the Federal Government in a policy designed to alleviate human distress and regenerate the economy undertook to assume much greater responsibilities for individual welfare and to assert a dominant role in the management of the economy. No matter how humanely intended, these measures were largely ineffective, and it took our

involvement in World War II to reestablish a robust domestic economy. However, the seeds of the attitude that the answer to every problem resides in Federal regulation, preemption and largess had been planted. Despite this, in the two decades following World War II, the resurgence of an economy producing for peace proceeded at such a rate that it was able to sustain the increasing financial burdens shouldered by the Federal Government. In 1965, the tragic mistake was made of assuming that our nation could pay the costs of the war in Southeast Asia and vastly expand already massive social welfare programs without compensating increases in taxes.

These costs, of course, have been paid and will be paid, not from a forthrightly levied tax which permits the taxpayer to evaluate the programs for which he is paying, but by inflation—the cruelest, most pervasive and regressive tax of all. Since 1965, with the exception of a single year, the Federal Government has operated in the red. It has balanced income and outgo each year by borrowing the shortfall in revenues, thus placing a heavier and heavier mortgage on the nation's future. The interest service alone on that mortgage is now costing us $35 billion annually. The cost to every American of this long-continued Federal fiscal irresponsibility is revealed in the meteoric rise in the costs of living and doing business. According to the U.S. Department of Labor indices (with the year 1967 equal to 100), wholesale prices have risen from 96.6 in 1965 to 176.7 in August 1975. In the same time span, the Consumer Price Index rose from 94.5 to 162.8. Thus, in the decade, wholesale prices were up 83 percent, and consumer prices up 72 percent.

A trained economist might prefer a more elegant and esoteric definition, but to me inflation is simply the condition in which too many dollars are chasing too few goods and services with consequent escalation of prices. In 1913 we established the Federal Reserve System among whose principal responsibilities is regulation and control of the supply of money and credit. For the most part, the Federal Reserve has served well, but its freedom to pursue judicious and desirable courses of action to maintain stable prices has been hamstrung by the necessity of funding the recurrent Federal deficits. The result has been a long-term trend in the expansion of money and credit in excess of the needs of the economy and additions to the burdensome costs of government—all of which is directly responsible for the major inflationary thrust.

Inflation feeds upon itself. There is no universally available means by which it is possible to cope with inflation, and the mere existence of widely-held inflationary expectations exacerbates the problem. For example, from time immemorial, interest, the charge made by lenders for the use of money, has been 3 to 3½ percent plus the rate of inflation then prevailing. As lenders look ahead and see no assurance that inflation will be contained, they seek to preserve their capital by insisting upon higher yields. Far from being a cause of inflation, deplorably high interest rates are a result, just as surely as $4.25 per bushel wheat is a result, not a cause, of inflation. In like vein, when the laboring man demands increases in wages and fringe benefits that have little or no relationship to increases in productivity, he is reacting to inflation realized or expected. In both instances, the effect on the economy is a depressing one.

For several years, the Congress and the American people have been alarmed by the rapid rise in health care costs. Critics who gravitate to easy answers to complex problems accuse the providers of care and blame the system. The fact is that health care costs have zoomed primarily because of the inflation caused by unsound Federal fiscal and monetary policies. For example, 65 to 70 percent of the cost of providing a patient day of care in a general hospital is the cost of labor. In a labor market where wages reacting to inflation have been increasing from 8 to 12 percent or more a year, hospitals have had to meet the competition and these higher costs are passed through to the patient.

Probably the most pitiful victims of inflation are our older people, widows and orphans, all those who are living on fixed incomes. By their providence and self-denial over a lifetime of saving, these senior citizens accumulated a modest estate which without inflation would have permitted them to live out their years in dignity and reasonable comfort. But for many, inflation has reduced their lot to little better than one of mere survival. Congress, reacting to the impact of inflation on our principal class of pensioners, Social Security recipients, enacted ad hoc increases in benefits effective in 1965, 1968, 1970, 1971 and 1972. These increases exceeded the increase in living costs during those years. Additionally, in 1972, the Congress incorporated in the Social Security law formulae by which it was expected that future adjustments in the level of benefits and Social Secu-

rity taxes, triggered by changes in prices and average earnings, would be achieved without further legislation. The first automatic increase became effective this year.

It was my privilege to serve as a member of the Advisory Council on Social Security whose report was filed with the Congress in March of this year. That experience quickened my understanding of how the manner in which price rises have outpaced increases in average earnings poses a serious threat to the solvency of the Social Security System unless the Congress takes timely action to raise Social Security taxes by at least 1% of taxable wages and remedies the defects that exist in the so-called automatic benefit adjustment factors.

In the last analysis, I think no one would deny that national prosperity, as well as individual welfare, depend ultimately upon the production of goods and services. A healthy, growing and productive economy is the source of jobs, of profits, tax revenues, national security, and an acceptable standard of living. When our real gross national product falters or stagnates, every segment of our society suffers. It is private enterprise, not government, that is the engine of production. Government can take from one and give to another, but adds nothing to national productivity. Funds siphoned off by government are capital that the economy sorely needs for investment to provide jobs, goods and services. On the average to provide one job in commerce, industry or agriculture, there must be an investment of more than $25,000 in plant and equipment. Today we are told that in order to approach our economic potential, the staggering sum of $4½ trillion must be accumulated and invested in the next ten years. At present, our tax structure penalizes savings, profits and capital accumulation and encourages spending for consumption. Because of this, capital fund-raising is difficult, expensive and, except for the most credit-worthy enterprises, sometimes impossible. The competition of government for such funds has become an added obstacle to raising capital for states, municipalities and private business.

In 1974, the Federal Government took $12 billion out of a total of $180 billion raised from the credit markets. In the second quarter of 1975, Federal credit demands soared to a $93 billion annual rate out of total annual fund-raising of $210 billion. Over the past ten years government spending, including transfer payments, has been expanding at a 9 percent annual rate, which is more than double the 4 percent rate for the private economy. The growth of government spending lies at the heart of the strains on the capital market. Since the Federal Government will see to it that its capital needs are satisfied first, as these needs burgeon because of recurrent deficits and their inflation sequelae, the private sector is threatened with the inability to raise the capital it so badly needs. We have been "consuming our seed corn" for some years by our failure to save and invest enough to maintain and enhance our productive capacity. Unless major steps are taken promptly to arrest preemption of the capital markets by the government, the attrition of the economy will only intensify.

Senate Joint Resolution 55, calling for a constitutional amendment to require balanced Federal budgets except in times of a declared national emergency, proposes a sound and workable way to return the government to a program of fiscal integrity. Its enactment would immediately defuse inflationary expectations, and its operation would lay the foundation on which long-continued stability, progress and prosperity could be achieved. The burdens of the public sector would be diminished as the private sector would assume its historic role of providing more and better jobs, a greater flow of better goods and services, a higher standard of living, and not, incidentally, a greater flow of tax revenues.

If, to some, the proposal seems objectionable because it would reduce congressional freedom of action, let it be remembered that ours is a government of delegated and reserved powers, a government of checks and balances. The constitution has always contained limitations on what the various branches of government may and may not do. It would seem to me that the Congress should welcome this constitutional bulkwark to its determination to govern wisely. We well know of the insistent pressure of special interest groups on every member of the Congress in support of particular projects. Many of these projects are highly desirable, but in their promotion their advocates too frequently are guilty of tunnel vision and are oblivious to the cumulative effect of countless such programs on our government's credit and the economy.

To those who would argue that by reducing the flexibility of fiscal policy we hamper management of the economy, I would respond that by stabilizing one of the current variables with which the managers must contend, we free the Federal Reserve to implement monetary and credit policy, the other variable, in a far

more effective manner than has been possible when the Federal Reserve action has been straitjacketed by the necessity of funding government deficits. The Congress is to be commended for taking the first step toward exercising fiscal responsibility by adopting the Congressional Budget and Impoundment Control Act of 1974. Passage of Senate Joint Resolution 55 is clearly the next step which should be taken.

Former Secretary of Health, Education and Welfare, Caspar W. Weinberger, in his valedictory address before retiring from Federal service last July, commented to the Commonwealth Club of San Francisco that, "My single overriding observation after these years in Washington is of the growing danger of an all-pervasive Federal Government. Unless checked, that growth may take from us our most precious personal freedoms. It also threatens to shatter the foundations of our economic system. When I came to Washington in 1970, the Federal budget outlay stood at $196.6 billion. It is now $358.9 billion, an increase of 83 percent. Apart from its sheer magnitude the most noteworthy thing about this trend is that Federal spending has shifted away from traditional Federal functions such as defense and toward programs that reduce the remaining freedom of individuals and lessen the power of other levels of government. . . . There is an overriding danger inherent in the growth of an American welfare state. The danger simply is that we may undermine our whole economy. If social programs continue growing for the next two decades at the same pace they have in the last two, we will spend more than half of our whole Gross National Product for domestic social programs alone by the year 2000."

I most earnestly urge upon you and your colleagues in the Congress that heroic measures must be undertaken to end recurrent Federal deficits with their inevitable inflationary impact. Unless we face up to this responsibility now, the American dream will be lost forever.

Mr. FAULKNER. Very true.

Senator CURTIS. I certainly appreciate your statement here, and a number of your points merits lengthy discussion, but as I stated before, I shall restrain myself.

Senator THURMOND. Mr. Faulkner, I notice you are president of the Woodmen Accident & Life Insurance Co. That is Woodmen of the World?

Mr. FAULKNER. No, sir, in the life insurance business, many companies have similar names. Woodman Accident & Life Insurance is a mutual company, not the same as the Woodmen of the World or the Modern Woodman.

Senator THURMOND. I am a longtime member of the Woodman of the World. I am just going to ask you of the status of the company today.

Mr. FAULKNER. It is a splendid company.

Senator THURMOND. Thank you very much for your appearance here, and we appreciate it tremendously.

Mr. FAULKNER. Thank you, Mr. Chairman and Senator Curtis.

Senator THURMOND. Mr. Grady Patterson, the State treasurer of South Carolina. He has with him a number of distinguished gentlemen who may want to come up and sit with him.

Mr. W. W. Johnson, are you chairman of the board or president down there?

Mr. JOHNSON. President.

Senator THURMOND. President of the Bankers Trust.

Mr. Ed McGowan, Labor Commissioner of South Carolina.

Mr. Ben Morris, publisher of the State & Record Co., the biggest newspapers in our State.

Dr. Neal Thigpen, professor at Francis Marion College.

You gentlemen come around to the table, if you want to, and join him.

Senator CURTIS. Mr. Chairman, may I say something at this point? The distinguished Governor of South Carolina is very much interested in this proposal. He was unable to be here today. I am happy that he has sent representatives of the government of South Carolina with also representatives of the business community of South Carolina.

I want to say to you people that we are very grateful to you for the services of our distinguished chairman today. He is one of the sponsors of both of the constitutional proposals that are now before the committee. He renders a very distinguished service, and I am exceedingly pleased that some of his constituents are here to take part in this hearing.

Senator THURMOND. Thank you very much for your kind words. I am sure they will remember that 3 years from now.

We are delighted to have you here, Mr. Patterson—or General Patterson. He is a general in the Air Force Reserve too, and a pilot. He keeps up his flying status.

We are delighted to have all of you other gentlemen here too.

Mr. Patterson, you go right ahead now and present your statement.

STATEMENT OF GRADY PATTERSON, TREASURER OF THE STATE OF SOUTH CAROLINA, ACCOMPANIED BY W. W. JOHNSON, PRESIDENT, BANKERS TRUST; EDGAR McGOWAN, COMMISSIONER OF LABOR OF THE STATE OF SOUTH CAROLINA; BEN MORRIS, PALMETTO BUSINESS FORUM; DR. NEAL THIGPEN, PROFESSOR OF POLITICAL SCIENCE, FRANCIS MARION COLLEGE, FLORENCE, S.C.

Mr. PATTERSON. Mr. Chairman, gentlemen of the committee, first I want to take this opportunity to thank you for allowing us to appear before this distinguished committee and express our views in support of a constitutional amendment requiring the Federal Government to operate on a balanced budget, Senate Joint Resolution 55.

Let me say from the outset that South Carolina has operated for decades and generations within the discipline of a balanced budget. Our Constitution directs it: Statutes require it; rules of our House of Representatives dictate it; and just plain reason and logic demand it. It is indeed frightening and alarming that the Federal Government has not exercised the same discipline in managing its fiscal affairs. And frankly, I do not believe our free enterprise and free markets system can long survive the excesses of the lack of fiscal discipline.

We have a constitutional requirement that requires a balanced budget, and I will quote a portion of that:

> The General Assembly shall provide for an annual tax sufficient to defray the estimated expenses of the State for each year, and whenever it shall happen that the ordinary expenses of the State for any year shall exceed the income of the State for such year the General Assembly shall provide for levying a tax for the ensuing year sufficient, with other sources of income, to pay the deficiency of the preceding year together with the estimated expenses of the ensuing year.

Thus, you will observe that this South Carolina constitutional requirement is not too unlike your own proposed amendment to the U.S. Constitution. This requirement has worked for us, and I know beyond any doubt that it will work for this Nation.

Our statutes require that revenue match expenditures each year and that we maintain a constant vigil on the revenue to insure a balanced budget. Section 107—and I think this is a significant provision—provides:

> Any appropriations made herein or by special act now or hereafter, are hereby declared to be maximum, conditional and proportionate, the purpose being to make them payable in full in the amount named herein, if necessary, but only in the event the aggregate revenues available during the period for which the appropriation is made are sufficient to pay them in full. The South Carolina State Budget and Control Board shall have full power and authority to survey the progress of the collection of revenue and the expenditure of funds by all departments and institutions, and is hereby authorized and directed to make such reductions of appropriations as may be necessary to prevent a deficit.

You gentlemen will recall that during the fiscal year 1970–71 we experienced a slight downturn in the economy. As a result of closely monitoring the progress of revenue collections, the State budget and control board which I alluded to earlier concluded that expenditures would exceed revenue collections. This provision of law provided the authority for the budget and control board to cut the fiscal year appropriations by 6 percent in November of 1970. South Carolina ended the fiscal year on June 30, 1971, with a $5 million surplus as a result of this timely action by the budget and control board.

You may be interested in knowing how we went about effecting this reduction in expenditures. We called each agency and department head in and suggested he tell us how he could best cut his budget by 6 percent. Almost without exception, there was full cooperation throughout State government, and no program really suffered. In fact, it was a very healthy exercise in financial management and fiscal responsibility. I might add, this action did not go unnoticed by the rating services and the money markets throughout the country.

We have another rule that relates to a balanced budget in our State. This is a rule of the house of representatives, section 5.3, and I quote it:

> After passage on second reading and before its consideration on third reading, every General Appropriation Bill and every Supplemental Appropriation Bill shall have attached thereto a certificate from the Comptroller General that the total of the appropriations therein provided is not in excess of the estimated total revenue of the State for such purposes, including that revenue which may be provided in the Bill, or in any other bill previously passed by the House for the fiscal year to which the Bill is applicable, and if the Comptroller General cannot give such certificate, the Speaker shall order the Bill recommitted to the Ways and Means Committee. After the report of the Committee, any amendment which it shall recommend may be adopted.

Consequently, as the annual Appropriations Act moves through the general assembly, another safeguard is erected to require a balanced budget.

Thus, it can be seen that South Carolinians not only believe in a balanced budget, but it is a philosophy with us, and we are dedicated to the fiscal discipline of living within our means.

As a result of keeping our financial house in order, South Carolina enjoys the cherished and coveted AAA credit rating, the highest awarded any State in the Nation. Our State is one of about a dozen States that is so recognized. We can borrow money as cheap as or cheaper than any other State in the Union. Our bonds sell as well as or better than those from any State in the Nation. Such fiscal discipline

has saved our taxpayers millions of dollars in interest costs in the financing of our capital programs.

The point is fiscal responsibility has worked for us, and it can and will work for the Federal Government.

What are the alternatives? We do not have to go to the history books to find the answers. The answers are on the front pages of the newspapers every day: New York City, Urban Development Corp., social security trust fund, and a number of other cities and States, as well as the staggering deficit the Federal Government is experiencing this year and next year.

The alternative to sound fiscal policies and good debt management is fiscal disarray and financial chaos.

In addition to the highly visible fiscal affairs of New York City, which are in shambles and chaos, many other cities and some States are experiencing similar difficulties. New York City has one financial crisis after another, almost on an hourly, daily, and weekly basis.

Of even greater significance is the grossly inadequate funding by Congress of the social security trust fund to meet the ever-increasing benefit payments voted by Congress. Within the next few years, by 1980 or sooner, it is estimated the trust fund will be depleted and the Congress will be required to make annual appropriations from the annual operating revenues to meet benefit payments. Unless Congress takes action immediately to provide funding for the social security program in the years ahead, the New York City debacle will look like peanuts by comparison.

I think the lesson to be drawn is that neither New York City nor the social security trust fund got into fiscal trouble last week or last year, but did so as a result of fiscal irresponsibility over a long period of years.

The point is these are examples of fiscal excesses and lack of fiscal discipline. We must keep our financial house in order, and we must live within our means.

I agree with Senator Curtis. I think there is a crying out for fiscal responsibility all over this Nation. I think people all over this country long for a return to fiscal sanity at the national level, and all levels of government for that matter. People are sick and tired of deficits, wasteful expenditures, and the lack of fiscal discipline. Citizens must exercise self-discipline and keep their own checkbooks balanced. Why should they expect less of their Government?

Balancing the Federal budget will not be easy. It will not be painless. It will probably take 4 to 6 years or 8 years to move to a balanced budget. I think we should establish a national goal to attain a balanced budget by 1980 or 1981. You know, when President Kennedy became President in 1961, we established a national goal of putting a man on the moon and returning him safely in the decade of the 1960's. We attained that national goal. Why cannot we dedicate ourselves to the necessary discipline of achieving a balanced budget by 1981? I think we can, and I think we must do it.

We must turn away from extravagance in the use of all of our resources. We have been brought to the painful and costly realization in the last 2 or 3 years that our resources are not limitless. The energy problem, shortage in certain food items, and even an alleged shortage of canning tops are some examples. We should adopt an attitude of individual as well as collective austerity and lower our level of expecta-

tion. We should rededicate ourselves to making work honorable and respectable. We should stress the dignity of work and the respect and self-pride of performing a day's work for a day's pay.

The key to such attitudes is the approach we take as individuals. The responsibility rests with each of us. Government at all levels cannot and will not respond without the urge and demand from individuals.

I am reminded of a statement made more than 200 years ago attributed to a British historian by the name of Prof. Alexander Tytler:

> A democracy cannot exist as a permanent form of government. It can only exist until the voters discover that they can vote themselves largesse from the public treasury. From that moment on, the majority always votes for the candidates promising the most benefits from the public treasury with the result that a democracy always collapses over loose fiscal policy, always followed by a dictatorship. The average age of the world's greatest civilizations has been 200 years.

On the eve of the celebration of our 200th anniversary as the greatest experiment in democracy, this is indeed a sobering observation. We see all about us shambles of financial affairs caused by loose fiscal policy. I think we stand at a crossroads, and the destiny of the Nation hangs in the balance. We cannot ignore the compelling requirement to return to fiscal sanity and fiscal discipline. The question is can we muster the will and resolve as a nation to bring about a renewal and rebirth of values that require us to live within our means? We really have no choice. We can and we must do it.

In conclusion, we support your effort in proposing an amendment to the U.S. Constitution requiring the Federal Government to operate on a balanced budget. We can and we must live within our means; we can and we must keep our financial house in order; and by so doing, we can and we must continue to improve the quality of life for all our citizens.

And I thank you.

[The prepared statements of Mr. W. W. Johnson, Mr. Ben Morris, Mr. Edgar McGowan, and Dr. Neal D. Thigpen follow:]

THE PALMETTO BUSINESS FORUM,
Columbia, S.C., October 7, 1975.

SUBCOMMITTEE ON CONSTITUTIONAL AMENDMENTS,
OF THE COMMITTEE ON THE JUDICIARY,
The Senate of the United States,
Washington, D.C.

GENTLEMEN: This letter is being written on behalf of the Palmetto Business Forum, a group of South Carolina business leaders concerned about the growing role of government in our society, and committeed to the strengthening of the free enterprise system and the perpetuation of individual freedoms. The Forum represents a wide diversity of business interests, and has members throughout South Carolina. We are writing in reference to Senate Joint Resolution No. 55 proposing an amendment to the United States Constitution requiring a balanced federal budget each year.

The Forum wishes to commend The Honorable Carl Curtis and the other Senators who introduced the resolution—including South Carolina Senator Strom Thurmond—and we should like to convey our support of the resolution. It has long been the position of the business community in South Carolina that uncontrolled governmental growth and spending represented a serious threat to the economic well-being of the nation.

Recently, of course, that fear has been borne out by a dangerously accelerating inflationary spiral nurtured to a great extent by what we consider to be irresponsible governmental spending and fiscal policies. The disclosure in Senator Curtis's statement of April 17 to the Senate that fifteen cents of every dollar spent in Washington next year will be borrowed constitutes an alarming development and a sad commentary on the financial management of our government. The

fact is that the forces of bureaucratic expansion and deficit spending which have been set into motion in the last quarter century must be retarded if our economy is to withstand this most recent—and most serious—onslaught. It is our belief that the constitutional amendment proposed by S. J. Resolution 55 provides an appropriate and effective means by which such a purpose could be achieved. As our State Treasurer, the Honorable Grady L. Patterson, Jr. testified today before the Subcommittee on Constitutional Amendments of the Senate Judiciary Committee, the State of South Carolina operates under requirements of its state constitution that its annual budget be balanced. It has been an undisputed part of the fiscal policy and operation of this state since 1895, and has sustained us through years of lean and plenty in such a fashion that we have been able to maintain an AAA bond rating on Wall Street. Our experience, and that of other states, would seem to provide an excellent precedent for the concept of constitutionally mandated fiscal responsibility.

Our purpose is not to take issue with the individual programs and policies which have proliferated so rapidly during this period of unprecedented government expansion. There are those of us who do have very strong philosophical reservations about the wisdom of many of the programs. But, for whatever well-intended purpose these programs may have originally been established, there appears to be clearcut evidence that their recent management and administration have led directly to enormous new financial burdens for government, and a subsequent undermining of the country's economic stability.

The difficult economic experiences of the last two years, we believe, have matured the American people and moderated their expectations toward governmental service. It is our feeling that the public is looking for leaders who will be willing to acknowledge that the time has come for sacrifice, and who are willing to provide leadership in that regard. Obviously, we do not live in a world of infinite resources, financial or natural. The longer it takes for leadership in the public and private sector to acknowledge that fact and come to grips with it the more grave our present economic crisis will become. While we believe that the proposed amendment is long overdue, we welcome it as being particularly timely today, and as being sensitive to the new public attitudes and awareness. It is unfortunate that it often requires crisis conditions to enact measures which were needed even without the crisis. But if today's economic problems lead to a more responsible management of fiscal affairs by the federal government, then the crisis will not have been an entirely negative experience.

We firmly believe that the federal government should not only conform to responsible fiscal practices, it should set an example of leadership. Absence of that leadership in recent years, we fear, has led to an overall breakdown among Americans in their understanding and respect for financial prudence and discipline. As the unfortunate experience of New York City has so graphically demonstrated, the day of reckoning does arrive. We fear that unless action is taken to curb irresponsible fiscal practices of the federal government, our entire nation is heading for a similar day of reckoning. By refusing to face that issue, we are only passing along the burden and the responsibility until a later day or to a later generation. It is our belief that we should confront it today, and we should do so in a reasonable and rational manner. The proposed amendment appears to be such an instrument. It makes no judgment upon the merits of the programs funded by the federal government. It simply provides a mechanism by which government can practice what we believe is a rather basic premise of our economic system; namely, that we live within our means and spend no more than we earn. Not only do we enthusiastically support and endorse the proposed constitutional amendment, we are confident that the overwhelming majority of Americans are ready for this kind of return to sound and responsible government at the federal level.

BEN R. MORRIS.
W. W. JOHNSON.

TESTIMONY BEFORE THE COMMITTEE ON THE JUDICIARY, OCTOBER 7, 1975

Mr. Chairman, members of the Committee, I am Edgar Leon McGowan, Commissioner of Labor for the State of South Carolina. I wish to thank you for this opportunity to appear in support of S. J. Resolution 55. For the past thirty (30) years I have served South Carolina either as a college professor, Democratic Party official, unofficial advisor to several governors and for the past four and one-half (4½) years as Commissioner of Labor. South Carolina does not have a Department of Commerce; therefore, the Department of Labor must serve both management and labor. As a result, I am exposed to both viewpoints.

In addition to being the Commissioner of Labor, I was for two (2) years a Director and am now the Vice-President of the International Association of Governmental Labor Officials. This organization's membership includes all forty-nine (49) Commissioners or Directors of the states Departments of Labor (Mississippi does not have a State Department of Labor), the District of Columbia, three (3) of the possessions or protectorates and all ten (10) ministers of labour from the Canadian provinces.

In these dual positions I travel throughout the United States extensively and during these travels I meet and talk with many people. I can assure each of you that the American population is frustrated and disturbed in regards to the direction being taken by government at all levels. We hear, see and read everyday in the news media the frustrations of the radical elements of this country; however, in talking to the responsible people of this country I find that the radical groups are not the only ones who are frustrated and concerned. Of course, responsible people don't buy a handgun and try to kill the President; therefore, their frustrations are not publicized or reported by the news media, but I find that their frustrations and concerns are just as real as those of the radical groups.

There are many reasons for the frustrations of the responsible Americans of today. Inflation, unemployment, high taxes, and over regulations by government at all levels seem to be the major reasons for these frustrations.

I am well aware, as you are, that throughout the two-hundred (200) years of our existence, Americans have suffered many frustrations. However, the problems of the past are cited today by those who wish to justify their own irresponsible actions and do not justify the public officials doing nothing about todays problems. America has enjoyed periods of time when the people were united in pride of their country. It has suffered through other periods of time when its people were divided by their frustrations. We reached the height of pride in 1945 when America was victorious in World War II. Since 1945 we in public life have done many things to destroy this feeling among our people. Even those who have joined us in the public sector during the past thirty (30) years have contributed to "business as usual" and all too often "business as usual" has been bigger government at all levels and in many cases irresponsible leadership. It is time we in the public sector began rebuilding confidence in government. The first step towards rebuilding confidence in government could very well be the adoption of this resolution.

Every American knows that they must live within their income or they wind up in a financial bind in a hurry. This to the average American is being financially responsible. They do not understand how the United States Government can operate year after year in or out of war with expenses exceeding income when they have to live within their income. It is especially true since it is the responsible Americans' tax dollar the government is spending. They are well aware of the fact that soon they will have to pay more taxes to pay off the national debt we are now incurring.

The State of South Carolina has a constitutional requirement as follows, to wit:

"The General Assembly shall provide for an annual tax sufficient to defray the estimated expenses of the State for each year, and whenever it shall happen that the ordinary expenses of the State for any year shall exceed the income of the State for such year the General Assembly shall provide for levying a tax for the ensuing year sufficient, with other sources of income, to pay the deficiency of the preceding year together with the estimated expenses of the ensuing year."

We even go farther than the constitution requirement. If during an operating year our actual revenues do not reach estimated revenues, then the agency heads are ordered by the Governor and the Budget and Control Board to cut back expenditures during the current year. As a result, South Carolina unlike many other states is in a sound financial position. Of course, during the current national economic crisis South Carolina's actual revenues are below the estimated revenues and we agency heads are expecting a cut back order any day. However, it has been my experience that each Department or Agency in the State of South Carolina has some surplus funds in their budget. If I am ordered to curtail expenditures by as much as ten (10%) percent this year in the Department of Labor the citizens will not suffer from lack of service from the Department because they will continue to receive the same services they are now receiving. Each year since I became Commissioner of Labor I have lapsed between ten (10%) and twenty-five (25%) percent of the Department's budget at the end of the year because the need did not materialize which justified the expenditure. These sav-

ings, however, did not curtail any of the services rendered by the Department. Each year when the news media reports the amount of the budget which I have lapsed, I receive commendable praise from all sectors of South Carolina citizens for responsible handling of the Department's fiscal affairs.

As Commissioner of Labor I am continuously dealing with the United States Department of Labor. It has been my experience that the United States Department of Labor is one of the most responsible agencies of the Federal Government. However, there are programs in the United States Department of Labor which are over-funded and others which are under-funded. However, from what I have seen there is a tendency even in that Department to overspend for the service rendered. I am well aware that there are many pressures imposed upon Congress to spend money for various programs; however, I am also aware that these pressures are of a self-interest nature and not necessarily what is best for our people. Today labor wants our unemployment problems cured by hiring in the public sector. Such hiring would merely contribute to inflation and at best be only a temporary remedy. I feel that excessive government spending plus over regulation of the businessman is one reason for the inflation spiral that we have been in for the past thirty (30) years. In the past ten (10) years expenditures in the Federal Government alone has *tripled* and this is also true at the state and local level.

Our democratic form of government is the best form of government devised by man. The only weakness is when the public officials, both elected and appointed, fail to recognize what the electorate really want from their government. I can assure you that the vast majority of America today wants responsible fiscal policies at the local, state and national level, and I feel that S.J. Resolution 55 is the first step in this direction and the first step to rebuilding public confidence in Government.

The alternative to rebuilding this public confidence could very well be all of us in public office being conspicuous by our absence after the next couple of elections. We have already seen some of this in elections in the past few years such as Governor Wallace's vote in the last presidential election; Governor Edwards, virtually an unknown oral surgeon, defeating a well known *RETIRED CONGRESSMAN* in our last gubernatorial election in South Carolina; and the recent special election just this past month in the State of New Hampshire.

I strongly feel that "business as usual" isn't going to soothe the frustrations of the responsible Americans. An adoption of S. J. Resolution 55 is the first step to returning to responsible government.

Thank you again for giving me this opportunity to express one public official's opinion on this critical issue.

Testimony of Dr. Neal D. Thigpen, Chairman of the Department of Political Science, Francis Marion College, Florence, S.C.

My purpose in appearing here today is to speak in support of Senate Joint Resolution 55 providing for an amendment to the U.S. Constitution requiring an annually balanced Federal Budget. I do so not as a political scientist and member of the academic community, but rather as an average citizen who has become alarmed at the ever increasing level of Federal spending and huge Federal Budget deficits. In my opinion, it is no longer a question of should we have a balanced budget, but how soon and by what means can we accomplish this objective. My reluctant conclusion is that our best hope rests in the addition to the Constitution of an amendment that will limit the Federal Government to spending no more than it takes in. I say my conclusion was reached reluctantly, because I initially had some reservations as to the advisability of placing this type of requirement into the Constitution. I fear, however, that there is really no other means to compel the Federal Government to operate on a pay-as-you-go basis. For without a balanced budget, and the fiscal restraints it entails, this nation is doomed to continuing inflation, high unemployment, high interest rates, more business failures, and possibly even a depression. At some point, we have to pay the price for our extravagances and every year we delay it means the final price will be dearer and more tragic for millions of Americans.

For more than 150 years we practiced frugality as a nation, built a great industrial economy and supported it with a sound dollar. It took 186 years for this country to reach a \$100-billion budget. It took only another 9 years, however, to reach a \$200-billion budget. It took 3 more years—that is fiscal 1974—to reach \$300-billion. In the current fiscal year, the Federal Government is spending

at better than a billion dollars a day. It now appears that we will come close to the $400-billion mark in fiscal 1976.

To place these phenomenal spending increases in a slightly different time-frame, as recently as 1961 the outlay of the Federal Government was a comparatively modest $94-billion. For fiscal 1975, it is scheduled to come in at a prodigious $350-billion. This means the level of Federal spending has quadrupled in about a decade and a half, with new increases suggested every day. We have been creating so many new programs and raising government benefits so rapidly that it almost seems as though the Federal Budget, with its enormous size and continual growth, has taken on a life of its own.

In addition, with the President's budget for fiscal 1976, a new and very dangerous element has been introduced into the Federal budgetary process—runaway deficit spending. At the beginning of this year, Mr. Ford proposed a 1976 budget with a deficit of $51.9-billion. Several months later the President drew the line at $60-billion. As of last month, the prospective deficit stood a $68.8-billion. It seems entirely probable that before Congress adopts its last spending bill, the deficit will rise to $75-billion. After a period of 44 years during which we have had 37 deficits, we will wind up fiscal 1976 with a deficit the likes of which this country has not experienced in the last 30 years. Deficits on this scale befell us only in the three World War II years of 1943, 1944, and 1945 (see Table I).

TABLE I.—*Federal Government surplus or deficit, 1932–1976*

In year ending June 30:	*Billions*		*Billions*
1932	−$2.7	1955	−4.2
1933	−2.6	1956	+1.6
1934	−3.6	1957	+1.6
1935	−2.8	1958	−2.8
1936	−4.4	1959	−12.4
1937	−2.8	1960	+1.2
1938	−1.2	1961	−3.9
1939	−3.9	1962	−7.1
1940	−3.9	1963	−4.8
1941	−6.2	1964	−5.9
1942	−21.5	1965	−1.6
1943	−57.4	1966	−3.8
1944	−51.4	1967	−8.7
1945	−53.9	1968	−25.2
1946	−20.7	1969	+3.2
1947	+.8	1970	−2.8
1948	+8.4	1971	−23.0
1949	−1.8	1972	−23.2
1950	−3.1	1973	−14.3
1951	+3.5	1974	−3.5
1952	−4.0	1975 [1]	−35.0
1953	−9.4	1976 [1]	−52.0
1954	−3.1		

[1] Preliminary estimate.

The huge deficits of 1975 and 1976 will not only pave the way for future inflation, but they threaten the capital markets where business must secure the necessary financing to survive and/or expand. By its own estimates, the Treasury, during this calendar year, 1975, will go into the capital markets for almost $70-billion in net new financing. This means that this year the Federal Government will be raising more net new money in the capital markets than raised by all borrowers, public and private, last year or any other year in the past. In fiscal years 1955 through 1959, the Federal Budget accounted for 20 per cent of net funds raised in the capital markets; between 1970 and 1974, the Federal share grew to 45 per cent. With the estimated budget deficit for fiscal year 1976, total Federal borrowing could well account for as much as 65 per cent of the capital markets. Add to this the anticipated borrowing by state and local governments, and total government borrowing during the coming fiscal year might be 80 per cent of the capital markets. This would leave only 20 per cent to private industry in a financial market that has always been the centerpiece of our free enterprise system. If this happens, interest rates would soar to ever new highs. Businesses,

contractors, home purchasers, and so forth, would find it terribly difficult to obtain loans and recession would be the inevitable result, meaning the loss of productivity and jobs.

If you find all of the foregoing appalling, consider the national debt now standing at over $530-billion. Of course, it is the interest payments on the national debt rather than the debt itself which will be the real burden on future generations. Ten years ago, interest on the debt came to $10-billion a year; now it is over $35-billion a year. The increase in the national debt has added to the interest burden not only of our grandchildren but of the present generation as well. Interest payments go to private Americans—institutions and individuals—who have invested their money in government securities. To them, the interest is income, not a burden. But for the taxpayers at large, there is no question that interest payments on the national debt are a heavy burden. They stand as ample proof that we must put an end to deficit spending and regain a sense of fiscal integrity.

Prior to the Great Depression, the almost unanimously held view was that government budgets, the Federal Budget included, ought to be balanced. Governments were almost universally condemned as irresponsible if expenditures exceeded tax revenues except for accidental reasons. Deficit financing was admitted to be unavoidable during times of war, but in nonwar periods governments were careful to preserve financial integrity, a term which was held to be almost synonymous with the annually balanced budget. The fact that governments were run by politicians was taken as added reason for insisting on fiscal discipline.

During the New Deal, however, deliberately unbalanced budgets and "pump priming" calculated to eliminate unemployment became the order of the day. The notion was that temporary expenditures would set the economy going again and the Federal Government could then step out of the picture. It was widely accepted that the maintenance of full employment was more important than any strict adherence to the "ancient fiscal rule" of a balanced budget.

What no one likes to point out is that deliberate unbalancing of the Federal Budget and expansion of governmental activity during the 1930's never did solve the problem of large-scale unemployment. Yet, the philosophy that it is essential for the government to run a perpetual deficit while Federal expenditures provide employment remains very much with us. Moreover, government programs once regarded as temporary and undertaken in order to prime the pump are still around, and indeed account for ever-growing government outlays. And it is easy to see that the abandonment of the principle of the annually balanced budget has biased decision-making over the years in the direction of deficit financing. Members of Congress will rarely create surpluses since the tax cutters and the expenditure expanders are the pressure groups, not the tax increasers and expenditure cutters.

Does this suggest that the annually balanced budget should be restored to its former place as the ideal of fiscal responsibility? My answer to that is an unequivocal yes. In fact, as I indicated at the outset of my remarks, I would carry things a step further and add to the U.S. Constitution the proposed amendment which is spelled out in Resolution 55. There will be those, of course, who will say that this resolution presently stands very little chance of securing the two-thirds vote in the U.S. House and Senate needed for submission of a proposed constitutional amendment to the American states for ratification. That, unfortunately, is probably an accurate assessment given the political thinking of a majority of the current members of Congress. It is my hope, however, that the hearings on this measure will force the average citizen to take a closer look at the fiscal activities of the Federal Government and to ask himself if there is not something terribly worrisome about this escalation in spending and enormous budget deficits that drain off needed loan funds for the private sector because of excessive government borrowing. I am confident that the average citizen is going to wonder if the Federal Government can or should constantly spend more than it takes in. And while a precise comparison cannot be made between the Federal Budget and the budget of the average citizen, I think there are enough similarities to convince the average citizen that it is high time we regained control of Federal spending and balanced our nation's budget. I think that the average citizen is going to throw up his hands and say "no more." I think he is going to demand that the Federal Government call a halt.

Still other critics of this proposal will undoubtedly argue that even if a requirement that the Federal Budget be balanced ever became part of the supreme law of the land that that goal would be impossible to achieve. It would be impossible, I am certain they will contend, because three-fourths of the Federal

Budget are so-called "uncontrollable" expenditures, in which substantial cuts cannot be made. My answer to that has been, and remains, that the budget is uncontrollable because the Congress has made it so. Congress "holds the purse strings," and whatever the Congress has done, it has the power to undo. Congress in cooperation with the Executive Branch would simply have to make the hard decisions that would be necessary in order to cut back on government spending to be in compliance with a constitutional provision of the type embodied in Resolution 55. To reduce Federal outlays now, or in the next year or so would cause some dislocations in our economy, but they would be minor in comparison to the dislocations we will experience if we continue along our present course.

The great difficulty would lie in determining which programs should be cut. The only reasonable means of eliminating the least desirable or most wasteful expenditures is to cut the budget on a program-by-program basis. To advocate an across-the-board cut of 5 to 10 per cent would encounter legal obstacles and make it difficult for political decision-makers to agree to cut Social Security, Medicare, Veterans benefits, and the like. Still in all, the budget could be balanced by cutting out the fat as has been demonstrated by a recent study by U.S. Representative Philip Crane of Illinois entitled "How to Cut the Budget: A Program for Fiscal Reform." In that work, Representative Crane argues that using the figures in President Ford's proposed budget that approximately $52.5 billion could be cut from the budget for fiscal 1976. In proposing his budget cuts, Representative Crane recognizes no sacred cows. All 14 functional areas of the government are reduced (see Table II).

Another valuable publication which points the way on how to balance the Federal budget is by Washington reporter Donald Lambro. He has examined 50 major and minor spending programs by the Federal Government, unearthed the critical facts about their performance, and offered recommendations for abolition or reduction. In his book, *The Federal Rathole*, Mr. Lambro estimates that among these programs alone, at least $25-billion in taxpayer's money could readily be saved. And Lambro's evidence is persuasive. There are, for instance, some 1,250 Federal advisory committees and boards embracing everything under the sun. They cost the taxpayers $75-million a year and produce nothing of demonstrable value. Then there is the $150-million annually pumped out for Federal movie-making—including no less than six fully equipped film-making agencies in HEW alone, 585 separate dental films, a $64,000 series teaching etiquette to Navy officers, and so forth.

TABLE II.—*Suggested Budget Cuts*

(Crane study)

Budget degeit as proposed by President Ford

For Fiscal Year 1976	$51, 900, 000, 000
	Reduction (millions)
Proposed reductions by function:	
National defense	$5, 750
Foreign affairs	4, 963
Space and technology	190
Natural resources, environment, and energy	3, 070
Agriculture	812
Community development	4, 620
Commerce and transportation	8, 290
Education, manpower, and social services	4, 050
Health	723
Public assistance/income security	10, 620
Veterans benefits	269
Law enforcement and justice	1, 156
General government	801
Budget allowances	7, 550
Total budget savings under Crane proposals	52, 864

If these much-needed programs are too difficult to cut Lambro has others at the ready. Like the $49.5-million spent by the National Science Foundation for such things as teaching chimpanzees to talk or for research into something

called "influence of dyadic relationships on adherence to stressful decisions." Or like $518-million promoting low-interest loans to foreign competitors to American business, or the $1.5-billion to the International Development Association will give away to foreign nations. And Lambro's list of expendables goes on and on.

The Crane and Lambro studies, along with a number of similar works on the same subject, have shown that a balanced budget can indeed become a reality. It all depends on whether we have the courage of our convictions and on how far we are willing to go in making sacrifices in domestic programs and foreign give aways. Yet, to insure that we will eventually accomplish this objective, we must have a mandatory balanced budget provision in the U. S. Constitution. Nothing could be more in keeping with the spirit of our Bicentennial Celebration than to once again return fiscal responsibility to the operation of the Federal Government.

RESOLUTION

Whereas many economic ills experienced from time to time at the national level can be traced to and attributed to deficit spending by the Federal Government; and,

Whereas there is a new awareness and demand among taxpayers throughout this nation for a return to fiscal sanity by the Federal Government; and

Whereas the Federal Government should set the example for fiscal responsibility and leadership for all levels of Government; and

Whereas the national interest would best be served with a constitutional requirement that the U.S. Government operate on a balanced budget; now therefore be it

Resolved, that the National Association of State Auditors, Comptrollers and Treasurers duly assembled this 27th day of August, 1975, in White Sulphur Springs, West Virginia, does hereby petition and urge the Congress of the United States of America to propose an amendment to the Constitution of the United States as follows:

The Congress shall provide for an annual tax sufficient to defray the estimated expenses of the United States Government for each year, and whenever it shall happen that the ordinary expenses of the United States Government for any year shall exceed the income of the United States Government for such year, the Congress shall provide for levying a tax for the ensuing year sufficient to pay the deficiency of the preceding year, as well as the estimated expenses for the ensuing year, except in case of war declared by Congress.

Senator THURMOND. General Patterson, I want to compliment you on your statement. I think it is a very fine statement. I wish every Governor and every mayor in the United States could read this statement. I wish every Member of the Congress would read it, and I intend to call attention to the Congress of this statement, and maybe some others, with the hope that the effect that such statements would be beneficial to them.

Thank you.

There are many questions I could ask; I will see if Senator Curtis has any.

Senator CURTIS. I, too, want to thank you, General Patterson, for your statement. I am delighted that a number of gentlemen from your State are here.

Mr. Ben Morris, you are in the publishing business, are you not?

Mr. MORRIS. Yes sir.

Senator CURTIS. Do you believe that with the proper amount of public education that the people of the United States are ready to favor and accept this discipline to be placed upon the Federal Government—the limitation on their spending?

Mr. MORRIS. Absolutely, Senator.

I would be very disappointed if that were not true.

Senator CURTIS. I agree with you.

And do you find that individuals in all economic levels and all walks of life are concerned about Federal deficits and inflation and so on?

Mr. MORRIS. Well, I am sorry to say I do not find that with all individuals of all levels.

Senator CURTIS. Well, I mean people from all of these groups.

Mr. MORRIS. Yes, sir.

Senator CURTIS. Mr. Johnson, what is your business?

Mr. JOHNSON. I am a banker.

Senator THURMOND. He is the president of Banker's Trust; it is a big chain bank.

Senator CURTIS. Do you feel it is important that we do put into our Constitution some spending disciplines as far as the Federal Government is concerned?

Mr. JOHNSON. Very definitely, sir.

South Carolina is a poor State; our per capita income is on the lower end of the list, and some of the scholars testified earlier a major cause of inflation is the deficit spending by the Federal Government, and this is hitting our people exceptionally hard.

The middle-income and the low-income people are the ones that are paying the price. And I agree with you, sir, that given the opportunity, they will respond favorably to your proposal.

Senator CURTIS. Mr. McGowan, what is your business?

Mr. McGOWAN. I am commissioner of labor for the State of South Carolina.

Senator CURTIS. And you support such a proposal for requiring the Federal Government to go on a pay-as-you-go basis?

Mr. McGOWAN. Yes, sir, very much so.

May I make a short statement, sir?

Senator CURTIS. Yes, go ahead.

Mr. McGOWAN. You alluded to this a few minutes ago.

We have heard some very expert testimony here today. My thesis—and I have a statement I would like to turn in—is what really concerns me in this country is the concern and the frustration of the people of this country.

I travel this Nation extensively in my job; I talk to a lot of people, and they are concerned. Now the responsible people are not doing what the radicals do; that is, buy a handgun and try to kill the President. But they are just as frustrated; they are just as concerned about this Nation. And I think their concern is where we are going in government.

Now as a public official, I get an awful lot of this from people—where are we headed in government? Now to me, we have got to return to some responsible government in order to build back confidence in government on the part of our people.

Senator CURTIS. Well, if this Congress would muster sufficient votes to submit a proposal requiring a balanced budget to the States that it be ratified, do you agree with me that immediately there would be a surge of confidence over the country due to the fact that the Federal Government's house would be put in order?

Mr. McGOWAN. This would be the first step, Senator.

Senator CURTIS. And from that would flow investments and job opportunities and production and raising of the standard of living.

Mr. McGOWAN. That is right, sir.

Senator CURTIS. We certainly do want these statements of you individuals, and we would be delighted to have them.

Mr. Thigpen, you are an educator?

Mr. THIGPEN. Yes, sir; I hope so.

Senator CURTIS. And do you share the view that has been expressed?

Mr. THIGPEN. I do.

Let me just say there is one difference that I have with some of my friends. And that is that I do not necessarily think there is, out in the country today, an overwhelming sentiment. In other words, I do not think there is a feeling that something is going on in Washington that is terribly wrong in terms of Federal spending. And I think that is the important aspect of this amendment—the proposal for the amendment—that perhaps it would draw attention to the type of spending and the types of budget deficits that we have at the Federal level—in other words, I think we have to get the word out to the people of the country. I think that is the important thing.

Senator CURTIS. It is not wise for an elected official to give advice to the press, and it is never very successful. But my notion of a free press is one that keeps the public informed, and I have a fear that out of the great amount of news that is available to broadcast and to print that there has not been enough attention to keeping the American public informed on the fiscal condition of our Government.

Mr. THIGPEN. Jack Kilpatrick did a very nice piece on these hearings, and I just wish there would be others.

Senator CURTIS. Mr. Beasley, what is your business?

Mr. PATTERSON. He did not come, Senator. He is not able to be here.

Senator CURTIS. I again want to express my appreciation for your appearance.

Senator THURMOND. I want you to keep your seats just a moment. I want to say that these other gentlemen who came with Mr. Patterson—Mr. Johnson, Mr. Morris, Mr. McGowan and Dr. Thigpen—have statements, I believe, and without objection, those statements will follow the State treasurer's statement in the record.

Do any of you have anything else you would like to say on this subject before you leave?

Well, again, I want to express my sincere appreciation for coming here today. I am proud of the manner in which South Carolina has conducted its finances. I recall the third year I was Governor, the income was not sufficient to meet the expenditures, and the legislature had to impose new taxes. And the State has not hesitated either to impose new taxes or to cut the expenditures—one or the other has to be done.

The same principle will have to be followed in Washington if we are going to balance the budget. Either raise the taxes or cut the expenditures. I think we ought to cut the expenditures. We have so many things that could be reduced.

The statement that you just heard a few moments ago—it was an excellent statement by Mr. Faulkner—in which he stated that in 1970, in which he quoted the Secretary of Health, Education, and Welfare, Caspar Weinberger, and this is Mr. Weinberger's statement that he quoted: He says, "When I came to Washington in 1970, the Federal budget outlay stood at $196.6 billion; it is now"—and that is 1975—$358.9 billion, an increase of 83 percent." Now that is

in a period of 5 years that the Federal budget has increased 83 percent.

Now, how much higher is this budget going to go? Some of us have been around here and voting against these increases for years and years. But it seems we just have not been able to stem the tide. If we can pass this constitutional amendment, then the tide will be stemmed.

In other words, any year that the Congress spends more than it takes in, a tax automatically—and this is probably even better than the South Carolina arrangement. The South Carolina Constitution says that the legislature and the general assembly shall provide for levying of taxes for the ensuing year sufficient to pay the deficiencies of the preceding year.

That puts the burden on the legislature. Under this amendment, an excise tax will automatically go into effect. And what will happen then? The people are going to rise up and say, why this tax? What are you spending money for that we have got to increase taxes like this?

In my judgment, public opinion will then demand that the expenditures in Washington be reduced. The reason it has not been done so far is that the Federal Government has been able to borrow their money; they have been able to issue notes and bonds. And by borrowing the money and putting this debt on the taxpayers in the next generation, the public generally has not felt it. Under this amendment, they will feel it. It will bring it home.

Therefore, I think it is the best possible course we could take.

I congratulate the able Senator from Nebraska for introducing this amendment. I was pleased to join him on it. I joined the late Senator Harry Byrd before he died on a similar amendment—not quite as strong or good as this, I think, and I have joined others throughout the years. But this is the best amendment, in my opinion, that has been offered since I have been in the Congress, and I hope we can get sympathetic hearing.

If we could get the press to advertise this amendment, to carry the message to the people—I know, Mr. Morris, your people would do it, but if we could get the whole press to do it, we can adopt this amendment. After all, Congress is going to do, more or less, what public opinion says. And if public opinion speaks out, this amendment can be adopted.

Again, I want to thank all of you for coming here, and your presentation and your presence means a great deal. And I hope that good results will come from it.

Thank you, again.

Mr. PATTERSON. Thank you very much, Senator.

Senator THURMOND. Now, Mr. Jerry Beasley, who is president of the Textile Manufacturer's Association, is sitting in the back of the room.

Mr. Beasley, would you like to come up and say a word on the importance of passing this constitutional amendment to balance the budget?

You represent the largest segment of business in South Carolina—that is the textile people. The textile industry in South Carolina provides about 60 to 65 percent of all of the jobs of all industry in the State. Without the textile industry, our State would practically be a ghost State.

Do you care to say a word on this amendment?

STATEMENT OF JERRY BEASLEY, PRESIDENT, TEXTILE MANUFACTURER'S ASSOCIATION OF SOUTH CAROLINA

Mr. BEASLEY. Well I certainly appreciate the opportunity to be recognized, and I defer to what these gentlemen from South Carolina have already said. You know I hold in very high esteem our commissioner of labor and our fine State treasurer, Mr. Patterson, and Mr. Morris of the State newspaper, and Mr. T. W. Johnson, who is one of the great businessmen in our State. And I am sure they adequately covered the provision.

I would simply say the textile industry supports no deficit financing without question. We would like to see a balanced budget up here, and I think it would help solve this problem of capital formation which is so much in the limelight in this country today. And it would provide the jobs and productivity necessary to keep this country moving.

Senator THURMOND. I presume you endorse this amendment then that is being proposed here?

Mr. BEASLEY. Yes sir.

Senator THURMOND. Thank you very much.

Now we have a witness here who will take just a few minutes, who has to leave and I am going to take him before lunch. Mr. James Evans; he is with the American Conservative Union.

I might announce that when Mr. Evans finishes here, we are going to recess until 1:30 o'clock, and we will come back in this room at 1:30 o'clock, and the hearing will continue.

Mr. Evans, we are delighted to have you with us. You may proceed.

STATEMENT OF JAMES R. EVANS, GLEN ELLYN, ILL., REPRESENTING THE AMERICAN CONSERVATIVE UNION OF WASHINGTON, D.C.

Mr. EVANS. Thank you, gentlemen.

My name is James R. Evans. I reside in Glen Ellyn, Ill. I am here today representing the American Conservative Union and its 80,000 members to testify on behalf of this joint resolution. My positions, however, are my own.

There has been much reference today to the problems of capital formation created by our deficit spending; and, rather than covering the general subject which has been well covered, I would like to slant some remarks specifically in that direction.

As you well know, during the past 40 years, while the population of our country has grown approximately 75 percent, the cost of government has exploded by more than 10,000 percent, or about 135 times the population growth rate.

This unrestrained spending is destroying what is probably the most important part of the lifeblood of our economy, which is capital formation and accumulation. I think sometimes, perhaps, that many of our legislators do not quite understand what this means, and I would like to suggest a few examples.

Today a man can leave his home in New York City. He can arrive at his destination in San Francisco in about 5 hours.

Now, the reason he can do that is that he is able to utilize approximately $10 billion in capital that has been created by American business and invested in the requirements that produce the taxicabs he

used, the superhighways over which he traveled, the extensive airport facilities, a 747 jumbo jet, and the rest of the accompanying luxuries that go with it; 200 years ago it took the same man approximately 200 extremely uncomfortable days to go from New York to San Francisco, and involved probably an investment of about $300 in capital in terms of his conestoga wagon, horses, and allied equipment.

By way of further example, there is no job that can be done manually any faster today than it was done 200 years ago. It is not possible for a man to earn more than a dollar or two an hour for moving earth with a shovel, even with a strong union; but if someone provides the capital required to furnish him with a Caterpillar 3-cubic-yard tractor, he then becomes worth $10, $15, maybe $20 per hour. Gentlemen, that is the taproot from which all of our productivity and our standard of living emanates.

Now, who provides the capital necessary for these tractors, the machine tools, and the other sources of productivity, jobs, high wages, and in turn, economic stability?

Most of it is derived from corporate profits. As an aside, I might comment, those much maligned corporate profits realy simply become another business cost—the cost of capital with which to provide tools and job—thus, capital formation.

Capital accumulation, of course, is simply the result of private savings and innumerable other interest and dividend bearing investments created from the salaries and incomes of people who creatively work to provide goods and services. These, in turn provide the required sources for further business borrowings for still further expansion.

In short, while the untutored continue to propose various forms of forced redistribution of the economic pie, our great free market system has continued to bake bigger and bigger pies, which, despite reports to the contrary, allow a most productive and moral distribution to take care of itself without interference and coercion.

The most serious part of this problem, to me, is that we are simply running out of the major ingredient in our synergistic economic pie; namely, capital.

Government at all levels today consumes close to 45 percent of our personal incomes in taxes, and the ravages of inflation continue to rob the economy of its vitality.

In 1974, Government took almost 65 percent of the available credit, and during the coming fiscal year it will take more than 70 percent, and that, of course, becomes unavailable to business.

To demonstrate all of this even more graphically and the staggering nature that this problem really provides, I am going to refer to some figures from a consolidated balance sheet for the U.S. Government for the fiscal year ending June 30, 1974, prepared recently by Arthur Anderson & Co. It, by the way, was reprinted in Business Week one issue earlier.

If the Government used accrual accounting methods (and I might add that there is no accounting firm in the United States that will certify a statement for any corporation unless it is on an accrual basis and almost all of American business functions on an accrual basis) then the reported $3.5 billion deficit that we had for fiscal 1973 becomes a more realistic $95 billion deficit; and it is estimated that for 1975, the figure will be double what the Government's statements will show.

Now, the Arthur Anderson balance sheet reflects total liabilities of well over $1 trillion and an accumulated deficit of $812 billion. Now, I respect Professor Freeman's comments, but gentlemen, that is bankruptcy by any definition. That is worse than the condition in which New York finds itself.

Now, a constitutional amendment such as Senator Curtis has proposed is not only essential, it is urgent. Unless we act very, very quickly, I think the public through the press and otherwise, should be made to realize that not only high double-digit inflation is probable, but three-digit inflation is even possible. If that happens, we will have seen the final destruction of the most productive economic system the world has ever known.

Thank you.

Senator THURMOND. Thank you very much for your appearance here. We appreciate your statement.

Senator Curtis, do you have any questions?

Senator CURTIS. Mr. Evans, I want to thank you for appearing.

What is the source from which we get capital?

Mr. EVANS. The only source for capital is business profits and the private savings that result from it. I do not think even John Kenneth Galbraith has come up with a third source, and he has been trying for some time.

Senator CURTIS. And if the Government is too big a part, too big a competitor for both the profits and the private savings, our capital formation suffers.

Mr. EVANS. Well, it more than suffers because as has been suggested, Government really does not have any resources other than what it gets from the taxpayer. It has no method of creating capital. I think one of the important things that perhaps our legislators do not realize is that when we talk about business, they tend to think of General Motors and Caterpillar Tractor. As a businessman, I can tell you that more than 95 percent of all of the businesses in the United States that produce goods and services have fewer than 100 employees. More than 32 percent of them have fewer than 20 employees, and combined they produce well over half of our gross national product.

Now, that is what real American business is. These are little people with 20 employees, 5 employees, 50 employees, and they are the ones that are really seriously being hurt by that. They can simply not replace equipment and provide jobs and expand under these conditions.

Senator CURTIS. Thank you very much.

Senator THURMOND. We will now take a recess until 1:30.

[Whereupon, at 12:10 p.m., the subcommittee recessed, to reconvene at 1:30 p.m., that same day.]

AFTERNOON SESSION

Senator SCOTT [presiding]. The committee will come to order.

Let me say that we are very pleased to have Senator Curtis here with the committee, a longtime Member of the Senate, but not a member of the Judiciary Committee, the author of one of the two bills that the committee has under consideration. It is good of him not only to be the principal author of one of these bills but to take the time that he has taken, not only today, but throughout the hearings before this subcommittee, to be here and to sort of shepherd his bill a little bit.

Is Senator Clark present?

We will hear from you first, Senator.

Now, let me say for the benefit of all of the witnesses that the full committee meets at 2 o'clock, and I am going to have to be at that meeting. So, what I would like for each of you to do is to make your presentation in your own way, but where it is convenient to do so, to submit your statement for the record so that we can hear from as many witnesses as possible. I do not want to restrict you, but I am restricted by time, because I have to be at the committee meeting at 2 o'clock.

You go ahead, Senator.

STATEMENT OF HON. JAMES CLARK, JR., A STATE SENATOR FROM MARYLAND IN THE MARYLAND GENERAL ASSEMBLY

Mr. CLARK. Mr. Chairman, Senator Curtis, my name is James Clark, Jr. I am a farmer and have been a member of the Maryland General Assembly for 17 years, the last 13 in the State senate, where I now serve as chairman of the Finance Committee.

Today, however, I appear before you as a concerned citizen.

I am appreciative of the opportunity to testify before this committee on Senate Joint Resolution 55 and want to congratulate its sponsor, Senator Curtis, for bringing before this Congress a proposal aimed at checking the greatest threat to our Nation today—the ever-growing Federal debt and the inflation which it continues to cause. The deficit spending policy of our Government is robbing every American by undermining our purchasing power and causing us to pay ever-increasing income, sales, capital gains, and estate taxes. I want to make it clear that I wholeheartedly endorse the concept of a constitutional restraint on Congress power to borrow and spend. I have come to believe that such a restraint is necessary because Congress is collectively incapable of resisting the immense pressures exerted on it to spend.

As an elected representative in Maryland, the one clear message I get from the people is their concern about deficit Federal spending and the inflation it is creating. In recognizing these dangers, it seems to me that the people are showing more intelligence than their government. They know that the government cannot continue to spend money, which it does not have and that inflation will not be halted until the Federal Government's spending is restrained.

However, the average citizen stands defenseless against the Federal bureaucracy in his desire to see government on a sound fiscal basis. Increasingly, citizens are turning to their State legislatures, which can petition Congress to convene a convention for the purpose of proposing a constitutional restriction on Federal spending.

The General Assembly of Maryland approved a resolution last spring under my sponsorship which not only requests Congress to propose a balanced budget amendment, but also petitions Congress, should it fail to propose the amendment on its own——

Senator SCOTT. Senator, let me interrupt——

Mr. CLARK. Yes, sir.

Senator SCOTT [continuing]. With the admonition that I made at the beginning. If you could just submit your statement for the record and then just testify in any way you want to, in fairness to the other witnesses.

Mr. CLARK. Well, it was so short that I thought that I would just read it.

Senator SCOTT. All right, sir. Go ahead.

Mr. CLARK. In any event, Maryland has made this call for the convention, and other States have joined us—Mississippi and Louisiana—and many other States are going to take up this subject in their common legislatures which will meet in January.

We feel that if the Congress will not act on its own and give us an amendment, then there is no recourse left to us but to pursue the call for the convention for this purpose.

I can think of no better way to observe the Bicentennial of our great country than to face up to and solve the most serious problem plaguing our Nation today. The greatest legacy we could pass on to future generations of Americans would be a constitutional harness on Federal spending.

Senator SCOTT. We will include your entire statement in the record, and Senator, let me compliment you on being here. I am cosponsor of this resolution, with Senator Curtis. He is the primary sponsor. I hate to not let you talk at great length, but we have other commitments.

Mr. CLARK. I understand that.

[The prepared statement of Mr. James Clark, Jr., follows:]

STATEMENT BY SENATOR JAMES CLARK, JR., OF THE MARYLAND GENERAL ASSEMBLY

My name is James Clark, Jr. I am a farmer and have been a member of the Maryland General Assembly for seventeen years, the last thirteen in the State Senate, where I now serve as Chairman of the Finance Committee. Today, however, I appear before you as a concerned citizen.

I am appreciative of the opportunity to testify before this committee on S.J. Res. 55 and want to congratulate its sponsor, Senator Curtis, for bringing before this Congress a proposal aimed at checking the greatest threat to our Nation today—the ever-growing Federal debt and the inflation which it continues to cause. The deficit spending policy of our Government is robbing every American by undermining our purchasing power and causing us to pay ever-increasing income, sales, capital gains, and estate taxes. I want to make it clear that I wholeheartedly endorse the concept of a constitutional restraint on Congress' power to borrow and spend. I have come to believe that such a restraint is necessary because Congress is collectively incapable of resisting the immense pressures exerted on it to spend.

As an elected representative in Maryland, the one clear message I get from the people is their concern about deficit Federal spending and the inflation it is creating. In recognizing these dangers, it seems to me that the people are showing more intelligence than their Government. They know that the Government cannot continue to spend money it does not have and that inflation will not be halted until the Federal Government's spending is restrained.

However, the average citizen stands defenseless against the Federal bureaucracy in his desire to see Government on a sound fiscal basis. Increasingly, citizen are turning to their State legislatures, which can petition Congress to convene a convention for the purpose of proposing a constitutional restriction on Federal spending.

The General Assembly of Maryland approved a resolution last spring under my sponsorship which not only requests Congress to propose a balanced budget amendment, but also petitions Congress, should it fail to propose the amendment on its own, to call a Convention for the sole purpose of proposing an amendment requiring a balanced budget, with certain exceptions. I have submitted a copy of the Maryland Resolution with my testimony.

Maryland has been joined by Mississippi and Louisiana in petitioning Congress for a Convention for the specific purpose of proposing a balanced budget amendment. In my conversations with legislators from other States whom I meet at Regional and National legislature conferences, I have personally heard of strong sentiment for the passage of similar resolutions in the legislatures, of Arkansas, Delaware, Florida, Georgia, Nebraska, Nevada, Oklahoma, South Carolina, Tennessee, Texas, Utah, Virginia, West Virginia and Wyoming. Spontaneous and independent citizen sentiment in favor of a constitutional restriction on Federal deficit spending policies in springing up across the land. This is a

grass roots movement and it is gaining strength. It is significant, I believe, that demands for fiscal responsibility at the Federal level are coming from the State level where the vast majority of State Governments are restricted by constitution and statute to live within their means. At least thirty-eight States in this country have requirements that their budgets be balanced and their debts strictly limited, but only thirty-four States must petition Congress for a convention call.

The framers of our Federal Constitution were men of great perception and the document which they gave us has proven truly remarkable. But they failed to put any fiscal restraints on the operations of the Federal Government. It is quite understandable that they could not foresee the reckless deficit spending habits of our Government in this decade. They were, however, wise enough to give us in article V a method of correcting the document by the amendment process. They were also wise to give us alternate methods of proposing the amendments. As James Madison explained, article V "equally enables the General and the State Governments to originate the amendment of errors as they may be pointed out by the experience on one side or on the other." If Congress fails to bring fiscal restraint to the Government with a constitutional amendment like the proposals before you today, then the citizens of this Nation have been left no other recourse than to work through their State legislatures to petition for a convention.

I would like to conclude my statement today by saying that I can think of no better way to observe the Bicentennial of our great country than to face up to and solve the most serious problem plaguing our Nation today. The greatest legacy we could pass on to future generations of Americans would be a constitutional harness on Federal spending.

Senator CURTIS. Mr. Chairman, I want the record to show that Mr. Clark, Senator Clark, has been a very great help in bringing about these hearings. He called at my office some months ago, told me of his work in Maryland, his visits to many other States promoting the idea of a constitutional requirement for a balanced budget. He attended the hearings that we had 2 weeks ago, and Senator Clark, I want the record to show our deep appreciation for your appearance.

Do you have a statement to submit for the record from State Treasurer James?

Mr. CLARK. Yes. Yes, I have. The reporter has that as well as my statement.

Senator CURTIS. Thank you very much.

[The prepared statement of Maryland State Treasurer William S. James follows:]

STATEMENT OF MARYLAND STATE TREASURER WILLIAM S. JAMES

Gentlemen, approximately 60 years ago Marylanders concluded that its General Assembly needed constitutional discipline to conduct State fiscal affairs in a responsible fashion. In 1916 the voters established a constitutional requirement that Maryland budgets be balanced. Since the adoption of what is konwn as the "executive budget system," Maryland has followed its constitutional direction as an article of faith. Attached "Exhibit I" provides a copy of this constitutional guide and a brief outline of Maryland's Budget Process.

In stark contrast to Maryland fiscal constraints, during the past 45 years, Marylanders have observed the spread of the disease of fiscal irresponsibility in the Federal Government. The alarm is not recent. In 1944 Senator Millard E. Tydings published an article in The Saturday Evening Post entitled "Why I Proposed a Pay-as-We-Go Amendment" (Exhibit II). He concluded his observations with the following inspired prophecy:

"The alternatives to pay-as-you-go after the war are not pleasant to contemplate. Among them certainly are continued high taxes; a constant threat to the value of our currency and to the savings of the people in savings accounts and life insurance; the repeated postponement of any effort to put our house in order; and, finally and only too probably, economic and political disaster and ruin. If there are any valid arguments against setting up now an adequate protection against such catastrophes, I do not know what they are."

Recently The Reader's Digest republished an article from Richmond News Leader illustrated by a table showing the direct relationship between federal deficit and inflation (Exhibit III). With 29 annual deficits and a 1940 dollar now worth 28 cents, the Tydings prediction could not have been more accurate.

Simple logic dictates the mathematical certainty that the payment of interest incurred by a booming national debt will one day become the principal purpose of government. The real objectives for which government is organized will become secondary. To prevent the unacceptable result of a government operated to serve bondholders, not doubt, the printing press will be the last resort. Bondholders and the trusting will be cheated of their savings.

In a democracy "things must get worst before they get better." Perhaps we are reaching the stage when citizens become alarmed. On July 10, 1975, Secretary of the Treasury William E. Simon said he was optimistic that the federal deficit would be held to 60 billion dollars. No doubt, he was engaged in wishful thinking. The situation will be much worse.

Although the mind can not embrace such figures, signs of alarm abound. Recently I received a letter from a distinguished Marylander in which he stated the condition of the Federal budget was a more serious problem than the Russians or the atom bomb. At the August, 1975, meeting of State Auditors, Comptrollers and Treasurers, a duly adopted resolution urged the Congress of the United States to propose a constitutional amendment to enforce balanced budgets (Exhibit IV).

State legislators are becoming restive. Under the sponsorship of Senator James Clark, the General Assembly of Maryland passed a resolution urging, in the absence of Congressional action, that a limited constitutional convention be called to adopt a balanced budget amendment (Exhibit V). This proposed amendment is making the rounds of State legislatures. Congress will soon recognize the potential of this action.

In the meantime, unprecedented Treasury borrowing is draining the capital markets, sucking funds from equity investments, drawing savings from banks and building associations, driving up interest rates, and feeding inflation. Enticement of capital from constructive enterprise deprives job making industries, such as housing, of their life blood. Thus, the federal government slowly converts us from a nation of investors to a nation of creditors and debtors. How long can a free enterprise system last without venture capital?

The modern process of taxation and budget making involves the concept of social justice. It aims to prevent the unjust accumulation of wealth, to reallocate income to assist the ill, the aged, the helpless, the unfortunate, and to invest in public programs designed for the general welfare. Any civilization worthy of the name should have similar objectives. However, a contracting base of producers can not indefinitely support an expanding burden of non-producers. Hence, it becomes increasingly important that programs and taxes be analyzed by the hard tests of purpose and affordability.

I served 28 years in the General Assembly of Maryland. During that period I never hesitated to vote tax support for worthy public purposes. Perhaps I have voted for more tax increases than any legislator in Maryland history. However, with the support of the Constitution of Maryland, I insisted that taxation and spending were inseparable.

In conclusion, let me express a preference for the amendment proposed by the late Senator Millard E. Tydings, which reads as follows:

"On the first day of each regular session, the President shall transmit to the Congress his estimates of the receipts of the Government during the ensuing fiscal year under the laws existing on such date, together with his recommendations as to the purposes for which such receipts shall be expended, and, except in time of war or during the period ending on the date of the expiration of one full fiscal year after the termination thereof, the Congress shall not appropriate money for expenditure during such fiscal year in excess of such estimated receipts, a transmitted or as modified or revised by the President, except by a vote of three fifths of each House taken by yeas and nays, unless prior to the making of such appropriation the Congress shall have imposed such taxes, duties, imports, or excises as will raise additional revenues equal to the amount by which such appropriation exceeds such estimated receipts, or unless such appropriation be for the purpose of paying the expenses and contingencies of the Congress or the courts, or for the payment of claims against the United States, the justice of which shall have been judicially declared by such tribunal as may be established by the Congress for the investigation of claims against the Government."

I would also amend Article I, Section 8, Clause 2 to prohibit the use of the borrowing power for current non-capital operating expenses without a three fifths vote of both houses of Congress.

Exhibit I

Constitution of Maryland

SECTION 52. HOW APPROPRIATIONS TO BE MADE; BUDGET

(1) The General Assembly shall not appropriate any money out of the Treasury except in accordance with the provisions of this section.

(2) Every appropriation bill shall be either a Budget Bill, or a Supplementary Appropriation Bill, as hereinafter provided.

(3) On the third Wednesday in January in each year (except in the case of a newly elected Governor, and then not later than ten days after the convening of the General Assembly), unless such time shall be extended by the General Assembly, the Governor shall submit to the General Assembly a Budget for the next ensuing fiscal year. Each Budget shall contain a complete plan of proposed expenditures and estimated revenues for said fiscal year and shall show the estimated surplus or deficit of revenues at the end of the preceding fiscal year. Accompanying each Budget shall be a statement showing: (a) the revenues and expenditures for the preceding fiscal year; (b) the current assets, liabilities, reserves and surplus or deficit of the State; (c) the debts and funds of the State; (d) an estimate of the State's financial condition as of the beginning and end of the preceding fiscal year; (e) any explanation the Governor may desire to make as to the important features of the Budget and any suggestions as to methods for reduction or increase of the State's revenue.

(4) Each Budget shall embrace an estimate of all appropriations in such form and detail as the Governor shall determine or as may be prescribed by law, as follows: (a) for the General Assembly as certified to the Governor in the manner hereinafter provided; (b) for the Executive Department; (c) for the Judiciary Department, as provirded by law, certified by the Comptroller; (d) to pay and discharge the principal and interest of the debt of the State in conformity with Section 34 of Article 3 of the Constitution, and all laws enacted in pursuance thereof; (e) for the salaries payable by the State and under the Constitution and laws of the State; (f) for the establishment and maintenance throughout the State of a thorough and efficient system of public schools in conformity with Article 8 of the Constitution and with the laws of the State; (g) for such other purposes as are set forth in the Constitution or laws of the State.

(5) The Governor shall deliver to the presiding officer of each House the Budget and a bill for all the proposed appropriations of the Budget classified and in such form and detail as he shall determine or as may be prescribed by law; and the presiding officer of each House shall promptly cause said bill to be introduced therein, and such bill shall be known as the "Budget Bill." The Governor may, with the consent of the General Assembly, before final action thereon by the General Assembly, amend or supplement said Budget to correct an oversight, provide funds contingent on passage of pending legislation or, in case of an emergency, by delivering such an amendment or supplement to the presiding officers of both Houses; and such amendment or supplement shall thereby become a part of said Budget Bill as an addition to the items of said bill or as a modification of or a substitute for any item of said bill such amendment or supplement may affect.

(5a) The Budget and the Budget Bill as submitted by the Governor to the General Assembly shall have a figure for the total of all proposed appropriations and the figure for total proposed appropriations shall not exceed the figure for total estimated revenues. Neither the Governor in submitting an amendment or supplement to the Budget Bill nor the General Assembly in amending the Budget Bill shall thereby cause the figure for total estimated revenues always shall be equal to or exceed the figure for total appropriations.

(6) The General Assembly shall not amend the Budget Bill so as to affect either the obligations of the State under Section 34 of Article III of the Constitution, or the provisions made by the laws of the State for the establishment and maintenance of a system of public schools or the payment of any salaries required to be paid by the State of Maryland by the Constitution thereof; and the General Assembly may amend the bill by increasing or diminishing the items therein relating to the General Assembly, and by increasing or diminishing the

items therein relating to the General Assembly, and by increasing or diminishing the items therein relating to the judiciary, but except as hereinbefore specified, may not alter the said bill except to strike out or reduce items therein, provided, however, that the salary or compensation of any public officer shall not be decreased during his term of office; and such bill, when and as passed by both Houses, shall be a law immediately without further action by the Governor. (1972, ch. 373, ratified Nov. 7, 1972.)

(7) The Governor and such representatives of the executive departments, boards, officers and commissions of the State expending or applying for State's moneys, as have been designated by the Governor for this purpose, shall have the right, and when requested by either House of the General Assembly, it shall be their duty to appear and be heard with respect to any Budget Bill during the consideration thereof, and to answer inquiries relative thereto.

(8) Supplementary Appropriation Bill. Either House may consider other appropriations but both houses shall not finally act upon such appropriations until after the Budget Bill has been finally acted upon by both Houses, and no such other appropriation shall be valid except in accordance with the provisions following: (a) Every such appropriation shall be embodied in a separate bill limited to some single work, object or purpose therein stated and called herein a Supplementary Appropriation Bill; (b) Each Supplementary Appropriation thereby made by a tax, direct or indirect, to be levied and collected as shall be directed in said bill; (c) No Supplementary Appropriation Bill shall become a law unless it be passed in each House by a vote of a majority of the whole number of the members elected, and the yeas and nays recorded on its final passage; (d) Each Supplementary Appropriation Bill shall be presented to the Governor of the State as provided in Section 17 of Article 2 of the Constitution and thereafter all the provisions of said section shall apply.

(9) Nothing in this section shall be construed as preventing the General Assembly from passing at anytime, in accordance with the provisions of Section 28 of Article 3 of the Constitution and subject to the Governor's power of approval as provided in Section 17 of Article 2 of the Constitution, an appropriation bill to provide for the payment of any obligation of the State within the protection of Section 10 of Article 1 of the Constitution of the United States.

(10) If the Budget Bill shall not have been finally acted upon by the Legislature seven days before the expiration of the regular session, the Governor shall issue a proclamation extending the session for some further period as may, in his judgment, be necessary for the passage of such bill; but no matter other than such bill shall be considered during such extended session except a provision for the cost thereof.

(11) The Governor for the purpose of making up his Budget shall have the power, and it shall be his duty, to require from the proper State officials, including herein all executive departments, all executive and administrative offices, bureaus, boards, commissions and agencies, expending or supervising the expenditure of, and all institutions applying for State moneys and appropriations, such itemized estimates and other information, in such form and at such times as he shall direct. The estimates for the Legislative Department, certified by the presiding officer of each House, of the Judiciary, as provided by law, certified by the Comptroller, and for the public schools, as provided by law, shall be transmitted to the Governor, in such form and at such times as he shall direct, and shall be included in the Budget without revision.

(12) The Governor may provide for public hearings on all estimates and may require the attendance at such hearings of representatives of all agencies, and for all institutions applying for State moneys. After such public hearings he may, in his discretion, revise all estimates except those for the legislative and judiciary departments, and for the public schools, as provided by law.

(13) The General Assembly may, from time to time, enact such laws not inconsistent with this section, as may be necessary and proper to carry out its provisions.

(14) In the event of any inconsistency between any of the provisions of this section and any of the other provisions of the Constitution, the provisions of this Section shall prevail. But nothing herein shall in any manner affect the provisions of Section 34 of Article 3 of the Constitution or of any laws heretofore or hereafter passed in pursuance thereof, or be construed as preventing the Governor from calling extraordinary sessions of the General Assembly, as provided by Section 16 of Article 2, or as preventing the General Assembly at such extraordinary [extraordinary] sessions from considering any emergency appropriation or appropriations.

(15) If any item of any appropriation bill passed under the provisions of this Section shall be held invalid upon any ground, such invalidity shall not affect the legality of the bill or of any other item of such bill or bills. (1916, ch. 159, ratified Nov. 7, 1916; 1947, ch. 497, ratified Nov. 2, 1948; 1952, ch. 20, ratified Nov. 4, 1952; 1955, ch. 725, ratified Nov 6, 1956; 1964, ch. 161, ratified Nov. 3, 1964; 1966, ch. 416, ratified Nov. 8, 1966; 1970, ch. 576, ratified Nov. 3, 1970.)

The Budget Process

At the heart of the Maryland budget process is the accountability of the Governor. He is the elected official charged with the responsibility of implementing State programs. The General Assembly cannot, in general, alter the Governor's fiscal plan, except that it may reduce requests deemed excessive. There are only two instances in which the General Assembly may increase appropriations: (1) for itself and the Judiciary and (2) for any program by passing a Supplementary Appropriation Bill which must also provide revenue to finance the increase.

THE 1977 OPERATING BUDGET CALENDAR

January 1975—Governor provides fiscal planning guidance to agencies based on long-term economic and revenue outlook.

May 1, 1975—Submission of Agency five-year plans.

June 2, 1975—Governor sets Maximum Agency Request Ceilings for each State Agency consistent with estimated revenues.

September 2, 1975—Agency budget requests submitted for Governor and staff review.

December 10, 1975—Board of Revenue Estimates submits revenue forecast.

January 21, 1976—Governor submits balanced budget for Legislative review.

April 7, 1976—Budget receives Legislative approval.

July 1, 1976—Fiscal year begins.

SIGNIFICANT CONSTITUTIONAL PROVISIONS

Operating Budget Appropriations may not exceed estimated revenue and accumulated surplus.

The General Assembly may increase Governor's appropriation request only for the Legislature and the Judiciary; other requested program appropriations can be approved or reduced but not increased by the Legislature.

The General Assembly may not reduce a program appropriation and then add the amount reduced, in whole or part, to the appropriation of another Executive Branch program.

If the General Assembly wishes to finance a program not included in the Budget, it must enact a Supplementary Appropriation Bill which must include a tax to pay the appropriation.

The Budget Bill must be enacted before the 83rd day of the regular (90 day) session. If the Budget has not been enacted, an extended session must be called whose only order of business is the passage of the Budget.

EXHIBIT II

WHY I PROPOSED A PAY-AS-WE-GO AMENDMENT

(By Millard E. Tydings, U.S. Senator from Maryland)

A distinguished member of the Senate Committee on Appropriations discusses the proposal which—though it may seeem sensible enough to the rest of us—almost gave Congress conniption fits.

How the United States Government can pay its bills and maintain its credit is certain to be at the forefront of our postwar problems. Although there are some people described as economists who think we can get along without ever paying our expenses or decreasing our debt, the average citizen has not gone along with this extraordinary notion. The Saturday Evening Post has asked me, as the author of a proposed amendment to the Constitution requiring a pay-as-we-go policy in time of peace, to enlarge upon my reasons for believing that such a change in fiscal policy is imperative. With this request I am glad to comply.

For ninety-six of its one hundred fifty-five years of existence, our national Government has lived within its income. Only for fifty-nine years has it gone into debt by spending more than it took in. For seventeen out of these fifty-nine

years, the United States was engaged in a major war and, understandably, could not balance its budget.

So, when we look back over the record, we find that, in time of peace, our national Government lived within its income for ninety-six years, and beyond it for only forty-two years of our life as a nation.

From the time that Washington became our first President and until the commencement of World War I—except for the four years of our own Civil War—there was never an annual deficit greater than $90,000,000. Even during World War I, we went into debt only $853,000,000 in 1917, $9,000,000,000 in 1918, and $13,000,000,000 in 1919. A part of this debt was incurred through the huge war loan we then made to our Allies. From 1920 to 1930, because the national Government spent less than it took in, the national debt created by World War I was substantially reduced. But beginning with the year 1930, the Government has been spending much more each year than it has received. Little effort, if any, has been made to balance the national budget. In the ten-year period from 1930 to 1940, the Government's debt was increased approximately $27,000,000,000, an average deficit of $2,700,000,000 a year.

Superimposed on this peacetime debt are the unprecedented borrowings by our Government during the present war. It is estimated that when peace comes the Government of the United States will owe $300,000,000,000—an average of $8500 against every family in this nation, rich and poor, high and low, black and white. Never before have we been confronted with a national debt of such stupendous proportions. The interest alone on that debt in the postwar period, figured at 2½ per cent, will consume revenues of $7,500,000,000 a year. Up to 1940, our Government never had revenues in any year of more than $7,000,000,000 so we see that in the postwar period the interest charge alone will require more money than our national Government took in in any one year before 1940.

When we consider that, by next July, two thirds of the total deposits of all the banks of every kind in the United States will have been lent to our Government and $15,000,000,000 of the cash reserves and assets of the life-insurance companies will likewise have been lent to our Government it seems apparent that a sound program for governmental finance in the postwar period is imperative. If we continue, as a nation, to live upon the future, to spend more than we take in, we are likely to undermine the confidence of everyone in the financial stability of our Government. Plainly, that would bring on a tremendous depression, with extremely widespread distress. Not only would it threaten the safety of every bank deposit and life-insurance policy but business stagnation, great unemployment and the loss of farms and homes would be highly probable.

This condition should and can be avoided. It can be done only if, as a general policy, the national Government is compelled to live within its means in peacetime. If such a policy is adopted, there will be no loss of confidence in the conduct of our national Government. No one need worry about the safety of his bank deposit or life-insurance policy. In those circumstances, the debt need not cause depression, distress or unemployment.

At present, few realize there is no restriction on the President or the Congress requiring them to live within the Government's income. With the privilege to appropriate money, the Constitution provides no accompanying restraint or even responsibility on Congress or the President to raise the money which is appropriated. The Government is not required in peacetime to cut its coat according to its cloth. If Congress appropriates and the President approves an appropriation in excess of the Government's revenues, under the present system the Secretary of the Treasury simply goes out and borrows the needed money. This policy worked well enough most of the time, for the Government has generally lived within its means—at any rate, in time of peace. Our national debt never soared above $26,000,000,000 before 1933 even in time of war.

But now we cannot take for granted the future fiscal policy of our national Government. There is too much danger in such a course. There is too much potential disaster and distress inherent in a policy of chance. Henceforth, in peacetime, such contingencies as a mounting debt must be avoided if the general welfare of the nation is to be promoted and preserved.

To accomplish this result, I have introduced in the United States Senate, and Congressman Disney, of Oklahoma, has introduced in the House, an amendment to our National Constitution. It reads as follows:

"On the first day of each regular session, the President shall transmit to the Congress his estimates of the receipts of the Government during the ensuing fiscal year under the laws existing on such date, together with his recommendations as to the purposes for which such receipts shall be expended, and, except in time of war or during the period ending on the date of the expiration of one full fiscal year after the termination thereof, the Congress shall not appropriate money for expenditure during such fiscal year in excess of such estimated receipts, as transmitted or as modified or revised by the President, except by a vote of three fifths of each House taken by yeas and nays, unless prior to the making of such appropriation the Congress shall have imposed such taxes, duties, imports, or excises as will raise additional revenues equal to the amount by which such appropriation exceeds such estimated receipts, or unless such appropriation be for the purpose of paying the expenses and contingencies of the Congress or the courts, or for the payment of claims against the United States, the justice of which shall have been judicially declared by such tribunal as may be established by the Congress for the investigation of claims against the Government."

The amendment speaks for itself. In time of war, the Government can borrow. In any other national emergency so severe that Congress believes it wiser for it to borrow rather than to levy additional taxes, it can do so, provided three fifths of the members of each of the two Houses formally vote so to do.

Otherwise, Congress must live within its means. The country must be run on a pay-as-you-go basis in peace-time. If this amendment is adopted, every businessman, banker, labor leader, planner, Utopian, realist, theorist, and state and local official who comes before the appropriations committees to ask for billions for pet projects, for which the United States Gvernment does not have the money, can be asked by Congress: "Where do you suggest that we raise this money in new taxes?" Congress and the President can point out that the Government cannot appropriate money in peacetime unless it raises the money through new taxes in such amounts as will keep its budget balanced.

Thus, all who ask for money will have to state where the money is to be obtained.

And any new tax plan suggested will put every taxpayer, from millionaire to wage earner, on notice. Appropriations, therefore, will be more carefully scrutinized. Only those apparently necessary are likely to be made. Congress is not a happy body when it is forced to levy new taxes.

The constitutional amendment will prohibit any President or Congress in the future from doing what has been done in the past: taking the easy road of borrowing instead of taxing to raise needed funds in peacetime. The war debt and the peacetime debt should by now have taught each wage earner that governmental borrowings mean higher taxes for him. Henceforth, in peacetime, under the Tydings-Disney Amendment, Congress will have to put up the cash before it appropriates. The amendment forbids Congress to continue its live-easy, give-away-what-you-have-not-got policy into the postwar period. It prevents one Congress from passing the buck of paying for its appropriations on to the next Congress.

The amendment also has the virtue of compelling the President and the Congress to consider the relative merits of propositions for which appropriations are to be made. In his annual message to Congress, the President would be required to estimate the receipts of the Government and to make recommendations as to how these receipts shall be allocated to meet the nation's needs. Congress likewise would have to weigh carefully how the money it raises in taxes can best be spent in the interest of the nation. Heretofore, appropriations have been made with little effort to weigh their relative merits. Under our amendment, the President and Congress would have to decide, for example, what part of the expected revenues should be allocated to each department and agency of the Government. If the President and the Congress wanted to appropriate more than the estimated receipts, then they would have to raise the additional money and have it available for such purpose.

THE SAFETY VALVE

Furthermore, this constitutional amendment provides a good safety valve for dealing with unorthodox and highly critical emergencies. If the crisis is unforeseen, Congress could borrow and spend instead of raising new taxes, but only if three fifths of the members of each House of Congress, on formal rollcall, deemed it wise to adopt such a policy for one year at a time. In all other cases, a pay-as-you-go policy would be mandatory in time of peace.

If Congress can be required to live on a pay-as-you-go basis in peacetime, the small owners of savings-bank accounts and life-insurance policies can breathe easily. More than that, every person in America will pay less taxes. Industry and business, large and small, will have unquestioned confidence in the financial integrity of the Government. Such confidence means for business a green light to go ahead, and for the people the best prospects for more jobs and good pay. All these things will be needed to meet the impact of the postwar period.

There is no way that Congress can be forced to adopt a pay-as-you-go basis except by constitutional amendment. A mere Act of Congress requiring the Government to live within its means will not accomplish this result. In any appropriation bill, Congress can circumvent the purpose of such a congressional law simply by using the words: "Notwithstanding the provisions of any law, the Congress hereby appropriates blank dollars."

THE NEED FOR AN AMENDMENT

Nor will a new congressionally created budget law or bureau keep Congress on a pay-as-you-go basis. We have a budget law now, but Congress has been living beyond its means ever since 1930. A congressional-budget law, too, can be evaded whenever Congress wants to do so, by the use of the magic words: "Nothwithstanding the provisions of any law," at the beginning of an appropriation bill. The constitutional amendment outlined above is the only certain way to keep Congress on a pay-as-you-go basis in peacetime. Congress could not pass a valid law making an appropriation, no mattter what words it used, if the appropriation violated a constitutional amendment.

When one considers the probable size of our national debt at the war's end, the sick world in which we shall then be living, the hard readjustment from war to peace in our governmental, industrial and business life, and all the other dark clouds looming on the horizon, does not the nation's welfare and safety depend upon a discontinuance in peacetime of a policy of borrow and spend? Does not the welfare of every working man and woman in America require a postwar policy of pay-as-you-go? I believe it does, and I believe the constitutional amendment set forth above is the only certain means to achieve such a policy.

The alternatives to pay-as-you-go after the war are not pleasant to contemplate. Among them certainly are continued higher taxes; a constant threat to the value of our currency and to the savings of the people in savings accounts and life insurance; the repeated postponement of any effort to put our house in order; and, finally and only too probably, economic and political disaster and ruin. If there are any valid arguments against setting up now an adequate protection against such catastrophes, I do not know what they are.

EXHIBIT III

[From Richmond News Leader]

FAMILY BUDGETING—INFLATION: WHAT IT'S DONE TO YOUR DOLLAR

The Labor Department keeps putting out monthly bulletins about prices, unemployment and decreases in the dollar's purchasing power. These statistics do not, however, provide an overall view of the greased skid that the dollar has been on since 1940. The following table reveals the picture:

In terms of the 1940 dollar, the table shows that the 1974 dollar was worth only 28 cents. In only two of the 6 years covered by the table did the dollar actually increase in purchasing power.

It is probably no coincidence that the federal budget showed surpluses in only nine of the years. This table ought to be required reading for every member of Congress immediately prior to voting on any money bill that would further erode the dollar's value by increasing deficit spending.

INFLATION SINCE 1940

Year	Decreased purchasing power of dollar (percent)	Value of dollar	Federal deficit (billions)	Year	Decreased purchasing power of dollar (percent)	Value of dollar	Federal deficit (billions)
1940	0	$1.00	−$2.7	1958	−2.7	.48	−2.9
1941	−4.9	.95	−4.7	1959	−.8	.48	−12.8
1942	−9.7	.86	−19.3	1960	−1.6	.47	+2.69
1943	−5.8	.81	−53.8	1961	−1.1	.47	−3.4
1944	−1.6	.80	−46.1	1962	−1.1	.46	−7.1
1945	−2.2	.78	−45.0	1963	−1.2	.46	−4.7
1946	−7.8	.72	−18.2	1964	−1.3	.45	−5.9
1947	−12.6	.63	+6.6	1965	−1.6	.44	−1.5
1948	−7.2	.58	+8.8	1966	−2.8	.43	−3.7
1949	+1.0	.59	+1.0	1967	−2.8	.42	−8.7
1950	−1.0	.58	−2.2	1968	−4.0	.40	−25.1
1951	−7.4	.54	+7.5	1969	−5.1	.38	+3.2
1952	−2.2	.53	+.49	1970	+5.6	.36	−2.8
1953	−.8	.52	−5.2	1971	−4.1	.35	−23.0
1954	−.4	.52	−1.1	1972	−3.2	.33	−23.2
1955	+.3	.52	−3.0	1973	−5.9	.31	−14.3
1956	−1.5	.52	+4.0	1974	−9.7	.28	−3.5
1957	−3.4	.50	+3.2	1975[1]	−7.1	.26	−9.2

[1] Estimates.

Sources: U.S. Bureau of Labor Statistics. U.S. Office of Management and Budget.

EXHIBIT IV

Adopted at the 60th Annual Convention of the National Association of State Auditors, Comptrollers and Treasurers on August 27, 1975.

RESOLUTION

Whereas many economic ills experienced from time to time at the National level can be traced to and attributed to deficit spending by the Federal Government; and,

Whereas there is a new awareness and demand among taxpayers throughout this nation for a return to fiscal sanity by the Federal Government; and,

Whereas the Federal Government should set the example for fiscal responsibility and leadership for all levels of government; and,

Whereas the national interest would best be served with a constitutional requirement that the U.S. Government operate on a balanced budget; now therefore be it

Resolved, That the National Association of State Auditors, Comptrollers and Treasurers duly assembled this 27th day of August, 1975, in White Sulphur Springs, West Virginia, does hereby petition and urge the Congress of the United States of America to propose an amendment to the Constitution of the United States as follows: "The Congress shall provide for an annual tax sufficient to defray the estimated expenses of the United States Government for each year, and whenever it shall happen that the ordinary expenses of the United States Government for any year shall exceed the income of the United States Government for such year, the Congress shall provide for levying a tax for the ensuing year sufficient to pay the deficiency of the preceding year, as well as the estimated expenses for the ensuing year; except in time of war as declared by the U.S. Congress."

EXHIBIT V

EXPLANATION.—Italic indicates amendments to the resolution. [Brackets] enclose matter stricken out.

SENATE JOINT RESOLUTION NO. 4

By: Senators Clark, Abrams, Bishop, [Blount,] Boyer, Bozick, Cade, Coolahan, Connell, Corderman, Crawford, Curran, [Emanuel,] Hall, Helton, Hopkins, Hutchinson, Lapides, [Levitan,] Lipin, Malkus, Mason, McGuirk, Miller, O'Reilly, Schweinhaut, Simpson, Smelser, Staten, Steers, Stroble, Thomas, [Welcome,] White, and Wiser

Introduced and read first time: January 21, 1975
Assigned to: Finance
Committee Report: Favorable with amendments, January 31, 1975
Senate Action: Adopted with floor amendments
Read second time: February 5, 1975

RESOLUTION NO. ———

SENATE JOINT RESOLUTION

A Senate Joint Resolution concerning Budget of the United States

For the purpose of requesting appropriate action by the Congress, on its own action by consent of two-thirds of both Houses or on the application of the legislatures of two-thirds of the several states, to propose an amendment to the Federal Constitution to require that the total of all Federal appropriations may not exceed the total of all estimated Federal revenues in any fiscal year, with certain exceptions.

Whereas with each passing year this Nation becomes more deeply in debt as its expenditures grossly and repeatedly exceed available revenues so that the public debt now exceeds hundreds of billions of dollars.

Attempts to limit spending, including impoundment of funds by the President of the United States, have resulted in strenuous objections that the responsibility for appropriations is the constitutional duty of the Congress.

The annual Federal budget repeatedly demonstrates an unwillingness or inability of both the legislative and executive branches of the Federal government to curtail spending to conform to available revenues.

The unified budget of 304.4 billion dollars for the current fiscal year does not reflect actual spending because of the exclusion of special outlays which are not included in the budget nor subject to the legal public debt limit.

As reported by US News and World Report on February 25, 1974, of these nonbudgetary outlays in the amount of 15.6 billion dollars, the sum of 12.9 billion dollars represents funding of essentially private agencies which provide special service to the federal government.

Knowledgeable planning and fiscal prudence require that the budget reflect all Federal spending and that the budget be in balance.

Believing that fiscal irresponsibility at the Federal level, with the inflation which results from this policy, is the greatest threat which faces our Nation, we firmly believe that constitutional restraint is necessary to bring the fiscal disciplines needed to reverse this trend.

Under Article V of the Constitution of the United States, amendments to the Federal Constitution may be proposed by the Congress whenever two-thirds of both Houses deem it necessary, or on the application of the legislatures of two-thirds of the several states the Congress shall call a constitutional convention for the purpose of proposing amendments; now, therefore, be it

Resolved by the General Assembly of Maryland, That this Body proposes to the Congress of the United States that procedures be instituted in the Congress to add a new Article XXVII to the Constitution of the United States, and that the General Assembly of Maryland requests the Congress to prepare and submit to the several states an amendment to the Constitution of the United States, requiring in the absence of a national emergency that the total of all Federal appropriations made by the Congress for any fiscal year may not exceed the total of the estimated Federal revenues, excluding any revenues derived from borrowing, for that fiscal year; and be it further

Resolved, That this Body further and alternatively requests that the Congress of the United States call a constitutional convention for the specific *and exclusive* purpose of proposing such an amendment to the Federal Constitution, to be a new Article XXVII; and be it further

Resolved, That this Body also proposes that the legislatures of each of the several states comprising the United States apply to the Congress requiring it

to call a constitutional convention for proposing such an amendment to the Federal Constitution, to be a new Article XXVII; and be it further

Resolved, That the proposed new Article XXVII (or whatever numeral may then be appropriate) read substantially as follows:

Proposed Article XXVII

"The total of all Federal appropriations made by the Congress for any fiscal year may not exceed the total of the estimated Federal revenues for that fiscal year, excluding any revenues derived from borrowing; and this prohibition extends to all Federal appropriations and all estimated Federal revenues, excluding any revenues derived from borrowing. The President in submitting budgetary requests and the Congress in enacting appropriation bills shall comply with this Article. If the President proclaims a national emergency, suspending the requirement that the total of all Federal appropriations not exceed the total estimated Federal revenues for a fiscal year, excluding any revenues derived from borrowing, and two-thirds of all Members elected to each House of the Congress so determined by Joint Resolution, the total of all Federal appropriations may exceed the total estimated Federal revenues for that fiscal year" and, be it further

Resolved, That copies of this Resolution under the Great Seal of the State of Maryland, be sent by the Secretary of State to: Honorable Gerald Ford, President of the United States, Washington, D.C.; Honorable Charles McC. Mathias, Old Senate Office Building, Washington, D.C.; Honorable J. Glenn Beall, Jr., Old Senate Office Building, Washington, D.C.; Honorable Carl Albert, Speaker of the House of Representatives, Washington, D.C.; Honorable Robert E. Bauman, Longworth Building, Washington, D.C.; Honorable Clarence D. Long, Rayburn Building, Washington, D.C.; Honorable Paul S. Sarbanes, Cannon Office Building, Washington, D.C.; Honorable Marjorie S. Holt, Longworth Building, Washington, D.C.; Honorable Gladys Spellman, House Office Building, Washington, D.C.; Honorable Goodloe E. Byron, Longworth Building, Washington, D.C.; Honorable Parren J. Mitchell, Cannon Building, Washington, D.C.; and Honorable Gilbert Gude, Cannon House Office Building, Washington, D.C.; and be it further

Resolved, That under the Great Seal of the State of Maryland, the Secretary of State is directed to send copies of this Joint Resolution to the Secretary of State and to the presiding officers of both Houses of the Legislature of each of the other States in the Union, with the request that it be circulated among leaders in the Executive and Legislative branches of the several State governments; and with the further request that each of the other States in the Union join in requiring the Congress of the United States to call a constitutional convention for the purpose of initiating a proposal to amend the Constitution of the United States in substantially the form proposed in this Joint Resolution of the General Assembly of Maryland.

Approved:

——— ———,
Governor.

——— ———,
President of the Senate.

——— ———,
Speaker of the House of Delegates.

SUGGESTED CHANGES TO TEXT OF MARYLAND SENATE JOINT RESOLUTION NO. 4

EXPLANATION.—*Italic* indicates amendments to the resolution. Parentheses enclose matter stricken out.

Page 3, lines 128–142 of Proposed Article XXVII

"The total of all Federal appropriations made by the Congress for any fiscal year may not exceed the total of the estimated Federal revenues for that fiscal year, excluding (any revenues) *from these revenues any monies* derived from borrowing; and this prohibition extends to all Federal appropriations and all estimated Federal revenues, (excluding any revenues) *except monies* derived from borrowing. The President in submitting budgetary requests and the Congress in enacting appropriation bills shall comply with this Article; *but a request may be made by the President or in any legislative proposal for a Federal appropriation which if enacted would cause Federal appropriations to exceed estimated Federal revenues for that fiscal year, if the request or proposal is ac-*

companied by requested or proposed legislation for additional revenues, and the request or proposal for the Federal appropriation shall be made contingent upon adding the additional revenues to the total of estimated Federal revenues for the particular fiscal year. If the President proclaims a national emergency, suspending the requirement that the total of all Federal appropriations not exceed the total estimated Federal revenues for a fiscal year, excluding (any revenues) *from these revenues any monies* derived from borrowing, and two-thirds of all Members elected to each House of the Congress so determine by Joint Resolution, the total of all Federal appropriations may exceed the total estimated Federal revenues for that fiscal year."

Senator SCOTT. All right. Now we have Congressman Simon here. Congressman, it is good to have you with us. Would you proceed in your own manner.

STATEMENT OF HON. PAUL SIMON, A U.S. REPRESENTATIVE IN CONGRESS FROM THE 24TH DISTRICT OF THE STATE OF ILLINOIS

Representative SIMON. Thank you very much, Mr. Chairman, Senator Curtis.

Senator SCOTT. I do ask you to bear in mind the admonition I made previously.

Representative SIMON. I will bear your admonition in mind.

I might say to Senator Curtis that I spent two of my college years at Dana College in Blair, Nebr., and I am going back there this weekend for a homecoming.

Senator CURTIS. You are well qualified to speak here as an expert. We welcome you to this rostrum.

Representative SIMON. I have no formal statement to submit. I am here to testify on behalf of the effort you gentleman are making.

Let me just cite a few statistics very quickly. First, on the spending history of this country—6 minutes of what we do in the Federal Government today equals our total expenditure in 1789. It took us 186 years to reach a $100 billion budget. It took us another 9 years to reach $200 billion, and then another 4 years to reach $300 billion. It is not only that spending trend, which I do not think we are going to stop; we may slow down the speed of it, but I do not think that is going to change. What we can do is to make sure that what we spend is on a solid basis, and I think that is extremely important.

State and local governments are learning the lesson that we are teaching them at the Federal level. I was involved in State government. I was in the State legislature, and a Lieutenant Governor there, in Illinois.

Senator SCOTT. What State is that?

Representative SIMON. The State of Illinois.

Senator SCOTT. Go ahead, sir.

Representative SIMON. The experience in Illinois applies to both political parties. Administrations of both political parties learned a very simple, easy lesson, and that is, if your needs are up here and your revenue is down here, you issue bonds to take care of the difference and you tell people, "When you buy mortgage on a house, this is how you have to take care of it." It is deceptive logic that fools enough people so you can get by politically. Someone has to take care of the future. We do it not only that way, but we do it by not funding pension systems and a variety of other things.

I talked just recently with the school administrator of a local school district in southern Illinois who said, "We had this problem and we were not able to balance the budget. We decided the heck with it; we are going to let somebody else take care of it in the future." That is really what we are doing up and down the line.

An increasing percentage of our tax dollar is going for interest rather than goods and services. I do not care whether you are politically a liberal or a conservative; that is just not a rational way to operate government.

I do not need to tell the members of this committee that this is causing problems in the capital market. It is adding to inflation, though I recognize there are a variety of causes of inflation. It is forcing, in fact, forcing higher interest rates, and causing a variety of problems.

The question is what can be done. Two things primarily ought to be done, one of which we can do by statute, one of which I think requires a constitutional amendment. I think by statute we ought to do with revenue sharing—we ought to have an increment, perhaps 2 percent, to a State or local government or unit that balances its budget. The average citizen has no idea whether a State or local governmental unit is balancing its budget. I frankly was opposed to revenue sharing originally, but it is here and our communities are dependent on it. Let us do something with it to dramatically show what is happening, to encourage governments to avoid what is taking place in New York City.

The second thing is the route to the constitutional amendment. I have examined the two—yours, Senator, and I think Senator Thurmond is cosponsoring both of the constitutional amendments. My feeling is that there is a plus in both.

Senator CURTIS. May I interrupt you right there? There is a revised edition of Senate Resolution 55, which simplifies it some.

Representative SIMON. I have not seen that revised edition. It does seems to me——

Senator SCOTT. Congressman, may I interrupt just a moment?

Representative SIMON. Yes.

Senator SCOTT. Senator Thurmond is only going to be here for a moment, and I believe he wants to make a unanimous consent request.

Representative SIMON. Yes.

Senator SCOTT. And we can put the information at the end of your testimony.

Representative SIMON. Certainly.

Senator THURMOND. Mr. Chairman, I would ask unanimous consent that a resolution passed by the National Association of State Auditors, Comptrollers and Treasurers on August 27, 1975, and of which organization Mr. Grady Patterson, the State Treasurer of South Carolina, is the president, following Mr. Patterson's statement which he gave this morning in the record.

STATEMENT SUBMITTED BY SENATOR PAUL LAXALT FOR THE HEARING RECORD ON SENATE JOINT RESOLUTION 55 AND SENATE JOINT RESOLUTION 93

Mr. Chairman, I certainly appreciate this opportunity to express my strong support for Senate Joint Resolution 55 before this distinguished Subcommittee. I wholeheartedly endorse any proposal directed towards increasing fiscal responsibility at all levels of government. Recent events have highlighted the

need for such responsibility. Yet, I fear that the leadership that is desperately needed at this time is largely absent. Therefore, it is as an expression of my great concern that I support this measure which would compel a balanced budget.

To give a precise definition of "fiscal responsibilty" may not be possible. There are probably as many definitions as there are political leaders in this country. But, while there may be some doubt as to exactly what fiscal responsibility is, I tell you with some certainty that it is not. We need only to examine the plight of our Nation's largest city to find a frightening example of the consequences of fiscal irresponsibility.

For years, New York City has ignored with apparent impunity the laws of public finance. The City's government has insisted on supplying far more public services than its revenues alone would permit. As an inevitable result, New York has accumulated a massive debt of about $12 billion.

A clearer focus on New York City's finances yields a useful example of what must be avoided at the Federal level. One-fourth of the City's 1974 budget was spent on social welfare programs, which are currently funded at a higher level than any other municipal program. The number of welfare "clients" has more than doubled in the past ten years, so that now there are over one million people on welfare in New York. The City's 19 municipal hospitals have 10,000 more employees than they had 10 years ago, despite a 25% drop in the patient load. And, educational employees have increased from 44,000 in 1960 to 80,000 in 1975; while student enrollment has remained stationary.

What is most unfortunate about New York City is that not only are its programs over-priced, they are also inefficient and inadequate. For example, New York City's Budget Commission recently reported that the City could have resurfaced 45% more streets for the same price if it had employed private contractors.

Of course, recent efforts have been made to close the widening gap between expenditures and revenues. Taxes have been increased and new taxes have been introduced. Currently, the City of New York boasts an 8% sales tax, a property tax of over 8%, a stock-transfer tax, personal and business income taxes, a leaded gasoline tax, cigarette taxes, and an automobile use tax. Nevertheless, the City will require as much as $4 billion in December to prevent defaulting on its debt obligations. In short, we have in the fiscal plight of New York City an example of fiscal irresponsibility second to none.

Yet, what troubles me most about New York City is that many of its budgetary problems are similar to those of the Federal government. For example, the United States with a population 25 times as large as New York City has a public debt 45 times as great. Both the bureaucracy of New York and that of the United States are notoriously wasteful. And like New York, the largest portion of our Federal budget is devoted to welfare.

Most important of all is that the budgetary problems of the Nation are enormous and unlikely to improve in fiscal years 1976 and 1977. Massive deficits must somehow be financed by Treasury borrowing. Debt service is now the Federal government's third most costly activity and heavy Treasury borrowing has become the predominant force in credit markets at a time when the level of private credit demand is expected to increase. If left unchecked, the Treasury's debt borrowing will "crowd out" private demand for capital.

The consequences of this "crowding out" are indeed perilous. The investment need for a prompt and smooth economic recovery will be appropriated by the government. Savings will shift from thrift institutions to government securities; this "disintermediation" will draw funds away from residential construction as well as capital investment.

Accordingly, excessive government spending must be curbed. The economy cannot have more expansion than it is able to finance. Moreover, if we are to have efficient use of our scarce resources, this expansion must occur in the private sector. The encroachment of government in the prerogative of private industry must be halted. Existing programs must be rescrutinized and rejustified; new programs must meet tougher criteria than ever before. We must never forget that the fundamental reality of economics is scarcity; in the long run, creating government purchasing power by degree will not eradicate scarcity of real goods.

Mr. Chairman, your Subcommittee has before you a Constitutional Amendment requiring a balanced budget and stipulating stringent conditions for the waiving of this criterion. As I have stated earlier, I endorse any effort to review the fiscal responsibility of the government. This proposed amendment embodies a principle as old as the notion of good and just government: if we cannot have just,

responsible leaders, then we must have just and responsible laws, what this amendment says to me as a Senator is: you and your colleagues in Congress cannot act with fiscal responsibility. Therefore, a law must be enacted to compel you to so act.

Mr. Chairman, I view this proposal as a challenge to those who lead this Nation. I choose to pick up the gauntlet of responsibility, to accept the challenge. The leadership of this country must respond to the need for fiscal responsibility now as never before in the postwar era.

The distinguished authors of this resolution should be praised for the intentions that underlie the text of this amendment. I approve of its intent and I recognize the call to budgetary leadership and fiscal responsibility that the proposal represents. It is my earnest hope that other members of Congress as well as budgetary authorities throughout the government, will respond to the call for leadership contained in the Resolution and rescue this country from an impending economic disaster now threatening not just one city, but the entire Nation.

Senator SCOTT. Without objection, it will be so ordered.

Thank you, Senator.

Senator THURMOND. I wish to thank you, Senator.

Senator SCOTT. Congressman, would it be possible for you perhaps to summarize and then to submit for the record—our record will be open for a number of days so we can hear the other witnesses?

Representative SIMON. I just have about two more sentences and my testimony is concluded.

Senator SCOTT. Go ahead, sir.

Representative SIMON. It seems to me that the one plus of your resolution, Senator Curtis, is that it mandates a procedure for taxation if we do not balance the budget, and I think that is absolutely essential. I do like the idea of having some kind of an out in an emergency situation. It seems to me the Talmadge proposal has that, though I do not think a simple majority of Congress ought to be able to get us out of that. I think it ought to be maybe a three-fifths majority, or something.

Senator CURTIS. My resolution is three-fourths.

Representative SIMON. Maybe three-fourths is a little steep; but some kind of out ought to be there.

Beyond that, I just want to add I think there is substantial sentiment for a move like this at the grassroots level. I think there is an awareness that we are following a path that ultimately is going to be an extremely costly one for the Nation.

Senator SCOTT. Congressman, it is good to have you. Who did you replace from Illinois?

Representative SIMON. I replaced Congressman Kenneth Gray. I am from deep southern Illinois, the southernmost district in the State.

Senator SCOTT. I served with Congressman Gray and think quite highly of him.

Thank you very much for being with us.

Representative SIMON. Thank you, Senator.

Senator SCOTT. Could we have Mr. Rinta.

STATEMENT OF EUGENE F. RINTA, EXECUTIVE DIRECTOR AND RESEARCH DIRECTOR, COUNCIL OF STATE CHAMBERS OF COMMERCE

Mr. RINTA. My name is Eugene Rinta. I am executive director of the council of State chambers of commerce. While the thoughts I present here are my own and do not necessarily in every respect repre-

sent the views of my employer organization, I do not hesitate to state that this organization wholeheartedly supports the objectives of Senate Joint Resolution 55 and Senate Joint Resolution 93.

During the 1950's and early 1960's, our organization regularly supported the type of measure which is before you now, that is, a constitutional amendment to prevent deficits, except in times of emergencies. In recent years this recommendation or support has not been repeated because of an apparent futility of getting action by the Congress. But early last month at the annual meeting of our council in Minneapolis, the executive heads of the member State chambers of commerce who were present voted unanimously in favor of an appropriate constitutional amendment requiring balanced Federal budgets except in emergencies.

Now, the question is, why did they at this time once again take a stand for a constitutional provision? They did it from a conviction that better control of inflation is essential to the preservation of our economic system; that budget deficits are a significant cause of inflation through the monetization of debt; that the political proclivity to finance added spending by borrowing rather than by taxation requires the discipline of a constitutional proscription if deficit spending in normal times is to be eliminated; and that the great majority of the public is so fed up with the excessive Federal spending and inflation of recent years that a constitutional amendment barring deficits would gain public support.

I personally believe that a constraint that is much stronger than congressional self-discipline is needed if continued deficits are to be avoided. The new system for consideration of the annual budgets created by the 1974 congressional budget reforms is a step in the right direction. It could exert considerable fiscal discipline on the Congress, but there can be no assurance that it actually will. One thing is missing, and that is a provision such as was in the legislation proposed by the entire membership of the Joint Study Committee on Budget Control. That was a provision which required the levying of a surtax or some other tax if budget outlay and revenue estimates indicated a deficit greater than the deficit set as appropriate in the concurrent resolution. This type of levying of tax to cover increased expenditures obviously would tend to restrain spending increases.

I will not get into any details on what has actually been happening.

Senator SCOTT. Mr. Rinta, we will incorporate your entire statement in the record.

You go ahead, sir.

Mr. RINTA. I would like to comment that bringing Federal spending under control and eliminating the large recurring deficits are not only essential to reduce inflationary pressures but it is also essential to provide the resources for meeting capital investment needs in the years ahead. This has been mentioned by other witnesses.

The fact is that the only source of creating productive jobs is capital investment, and the needs in the 10 years ahead are immense, according to Treasury Secretary Simon, about three times the total expenditures for capital investments in the preceding 10 years.

One estimate, for example, by the Brookings Institution, which would tend to be on the more liberal side, they estimated that capital needs of business in the 1974–80 period would be available, provided

the Federal budget was in substantial surplus during these years. Their projections indicated that the surplus could be about $11½ billion on the average.

That, to us, is hardly a realistic expectation based on the past record. As I see it, the only real prospect for attainment of recurring budget surpluses in the foreseeable future would be through ratification of a constitutional amendment.

I have a few suggestions with respect to such a constitutional amendment, which I will submit for what they are worth. One is that the amendment be as simple as possible and yet adequate to assure attainment of its purpose. That would prevent the need for amending that particular amendment in the future if problems arose.

Second, if the amendment should require imposition of a tax when expenditures would otherwise exceed receipts, I would suggest that the form of tax or tax increase be left to the discretion of the President, but subject to concurrence or change by the Congress. An income tax surcharge might be quite appropriate under certain circumstances, but under other circumstances some other tax might be more appropriate, depending on the economic situation.

Third, if the amendment should require imposition of a tax to balance excessive expenditures, a de minimis rule would be desirable. This would avoid the need to impose a tax when the required revenue is quite small—for example, an amount that would require an income tax surcharge of less than 1 percent.

Fourth, the suspension of the balanced budget requirement is provided in both Senate Joint Resolution 55 and 93, with 55 being much tighter. I would suggest that suspension of the balanced budget provision require more than a majority vote by each House, but less than the three-fourths required under Senate Joint Resolution 55.

Senator SCOTT. Mr. Rinta, I hate to do this, but we are going to have to ask that you submit the balance of your testimony for the record. We have people that have been here for a long period of time, and I do have to go to a full committee meeting.

Mr. RINTA. I will close with a couple of sentences.

The member organizations in the council of State chambers of commerce commend Senator Curtis for his perseverance in keeping this issue before the Congress, and they appreciate your committee's having brought the issue to the stage of public hearings. It is a first, but important, step toward Federal fiscal responsibility which we believe the public will support.

[The prepared statement of Mr. Rinta follows:]

STATEMENT OF EUGENE F. RINTA

My name is Eugene F. Rinta and I am employed as Executive Director and Research Director of the Council of State Chambers of Commerce. I am pleased to have this opportunity to testify in support of the objectives of S.J. Res. 55 and S.J. Res. 93, proposed amendments to the Constitution which would require balanced Federal budgets except in times of declared war or other emergency. It is on the basis of having analyzed and written on Federal fiscal issues for more than two decades that I feel I may have some contribution to make with respect to your consideration of these proposed amendments.

While the thoughts I present here are my own and do not necessarily represent the views of my employer organization in every respect, I do not hesitate to state that this organization wholeheartedly supports the objectives of S.J. Res. 55 and S.J. Res. 93. During the 1950's and early 1960's the Council of State Chambers of Commerce consistently included in its published policy statements

on Federal spending and taxation a provision calling on the Congress to devote its early attention to proposed measures then before it which were designed to prevent budget deficits except in times of national emergency declared by Congress. The Council's Federal Finance Committee, which is responsible for developing fiscal policy recommendations, has not repeated this recommendation in recent years because of the apparent futility of getting action by the Congress.

But early last month at the Annual Meeting of the Council in Minneapolis, the executive heads of the member state chambers of commerce who were present voted unanimously in favor of an appropriate constitutional amendment requiring balanced Federal budgets except in emergencies.

Why did these business organization representatives decide once again to take a stand for a constitutional provision against Federal defict spending despite the lack of action over the years? They did so from a conviction that—

Better control of inflation is essential to the preservation of our economic system;

Budget deficits are a significant cause of inflation through the monetization of debt;

The political proclivity to finance added spending by borrowing rather than by taxation requires the discipline of a constitutional proscription if deficit spending in normal times is to be eliminated; and

The great majority of the public is so fed up with the excessive Federal spending and inflation of recent years that a constitutional amendment barring deficits would gain public support.

My own personal view is that a constraint that is much stronger than congressional self-discipline is needed if continued deficits are to be avoided. The new system for consideration of the annual budgets created by the 1974 congressional budget reforms is a step in the right direction. It could exert considerable fiscal discipline on the Congress but there can be no assurance that it actually will. The trial run now being given the new budgeting system by the Congress illustrates the point.

Under the new system Congress last May set a target of $367 billion in fiscal 1976 outlays and a target deficit of $68.8 billion. Both of these figures were substantially higher than the estimates in the President's budget for 1976. Now, based on budget scorekeeping estimates of the Congressional Budget Office, there is every indication that both outlays and the deficit will materially exceed the targets that Congress set for itself.

While the new system does appear to be having some restraining effect on congressional spending decisions, its weakness is that it does not have a self-enforcing constraint. A significant constraint was included in the proposed legislation, H.R. 7130 and S. 1641, 93d Congress, which was sponsored by all 32 members of the Joint Study Committee on Budget Control. Under this proposed legislation an income tax surcharge or other tax would have to be levied if the budget outlay and revenue estimates indicated a deficit greater than the deficit which Congress set as appropriate in the concurrent resolutions on the budget. This requirement to levy a tax to cover the increased expenditures would obviously tend to restrain spending increases.

Although we in the Council of State Chambers of Commerce urged enactment of the Congressional Budget Act, we have had no illusions that the new budgeting system was the cure-all for excessive Federal spending and deficits. But the fiscal record since the mid-sixties has been so bad, and getting worse, that we were pleased to support this effort on the part of Congress to improve its control over spending. To summarize briefly, the record of the last 10 years shows—

Nine deficits and one surplus for a net 10-year deficit of $145 billion, with $108 billion of that deficit having been incurred in the last five years.

In the Federal Funds accounts, which exclude the Trust Funds, the 10-year deficit was $220 billion, with $153 billion of that total incurred in the last five years. It is this 10-year Federal Funds deficit which accounts for the increase in the gross Federal debt from $323 billion at the beginning of fiscal year 1966 to $547 billion at the end of fiscal year 1975.

A budget deficit of at least $70 billion in 1976 is virtually certain, as is another huge deficit in 1977.

Bringing Federal spending under control and eliminating recurring large deficits are essential, not only to reduce inflationary pressures but also to provide the resources for meeting capital investment needs in the years ahead. A number of studies of such needs in the years through 1985 have been made during the last year or two. Secretary of the Treasury Simon has given the Treasury's estimate of capital needs from 1974 to 1985, based on analysis of several of these

studies, as being about $4.5 trillion. He noted that this figure is three times the total expenditures for capital investment in the preceding eleven years, 1962 through 1973.

Estimates in these studies of the gap between investment needs and sources of financnig vary substantially depending on the economic assumptions which were used in making the projections. The most recent study of this type, one issued by the Brookings Institution, covers the period from 1974 through 1980. It reportedly placed business capital needs during this period as exceeding internally generated funds by an average of $64.6 billion a year which would have to be raised in the capital markets. This figure is almost twice the $33.9 billion average annual amount raised by business in the capital markets during the 1971–73 period. According to the Brookings study, the estimated capital needs of business in the 1974–80 period would be available provided the Federal budget were in substantial surplus during these years. But attainment of the needed average budget surplus of $11.5 billion a year projected in the study is hardly a realistic expectation based on the past record. As I see it, the only real prospect for attainment of recurring budget surpluses in the foreseeable future would be through ratification of a constitutional amendment with a proscription against deficits as provided in S.J. Res. 55 and S.J. Res. 93.

With respect to such a constitutional amendment, I would offer the following suggestions:

1. The language of the amendment should be as concise as possible to assure attainment of its purpose. Detailed provisions for enforcing the amendment could create problems in the future which would require revisions of the amendment through the cumbersome process of amending the Constitution. The enforcing details would better be left to legislation as provided for in Section 6 under S.J. Res. 55 and Section 3 under S.J. Res. 93.

2. If the amendment should require imposition of a tax when expenditures would otherwise exceed receipts, the form of tax or tax increase should be left to the discretion of the President subject to concurrence or change by the Congress. While an income tax surcharge, as provided for in S.J. Res. 55, might be appropriate under certain circumstances, some other tax might be more appropriate in other economic situations. For example, if a value added tax should be adopted in the future, increasing its rate might be more appropriate at a given time than would an income tax surcharge.

3. Also, if the amendment should require imposition of a tax to balance excessive expenditures, a de minimis rule would be desirable. This would avoid the need to impose the tax when the required revenue is quite small—for example, an amount that would require an income tax surcharge of less than one percent.

4. Both S.J. Res. 55 and S.J. Res. 93 would suspend the requirement for a balanced budget in the event of war or other national emergency declared by Congress. The suspension under S.J. Res. 93 would be automatic in a state of war declared by Congress and by majority vote of both Houses in a national economic emergency. Under S.J. Res. 55 the suspension would require approval by three-fourths of all the Members of each House.

I would suggest that suspension of the balanced budget provision require more than a majority vote by each House but less than the three-fourths required under S.J. Res. 55. With a simple majority vote it would be too easy for the Congress to use a declared economic emergency as a reason for deficit spending. Even in a state of war, such as Korea and Vietnam, something larger than a majority vote for suspension would be appropriate. The three years of the Korean War were financed with only a modest deficit of less than $2 billion. During that war nondefense spending was tightly restrained. Had similar restraints been applied during the Vietnam War, it too could have been financed with only modest, if any, tax increases.

Mr. Chairman, the member organizations in the Council of State Chambers of Commerce appreciate your Subcommittee's having brought the issue now before you to the stage of public hearings. It is a first but important step toward Federal fiscal responsibility which we believe the public will strongly support.

Senator SCOTT. Mr. Rinta, we appreciate very much hearing from you as executive director of the State Chambers of Commerce, and know of your support for this measure. I would just make this one comment. I hope that you would take back to your various chambers the thought that they might assist a little more in having people elected to both Houses of the Congress, in the State House, and per-

haps at the county level, people who share the views that you have just expressed.

Thank you for being with us.

Senator CURTIS. Mr. Rinta, I want to thank you not only for your appearance today, but for the support of you and your organization for many facets of good government over the last decades.

Mr. RINTA. Thank you.

Senator SCOTT. Senator Bumpers—and let me say, Mr. Bonner, we will get to you next. We know you have been here for a long time, but Senatorial courtesy requires that I get to my colleague next, and I will expect the same from him when I appear before him.

Go ahead, Senator, it is nice to have you.

STATEMENT OF HON. DALE BUMPERS, A U.S. SENATOR FROM THE STATE OF ARKANSAS

Senator BUMPERS. Thank you very much, Senator, and when you appear before me, you will receive the same courtesies.

Because of the time constraints, Mr. Chairman, with the committee's approval I will just submit my statement to the record and just summarize briefly my position on this.

Senator SCOTT. We appreciate that. We have a full committee meeting of the Committee on the Judiciary, and I am supposed to be there in about 10 minutes. You go right ahead, sir.

Senator BUMPERS. I am here, of course, in support of the constitutional amendment that has been submitted by Senator Talmadge, from Georgia. I will not belabor the point of it. As you know the amendment would prohibit deficit spending, unless because of a national emergency, such as war, or so on, or because of an economic emergency such as a recession or a high unemployment rate, the Senate and the House concurrently pass a resolution stating that there is such an emergency. In that event, a budget deficit would be permitted.

You and I both know, I think, as a practical matter, that this constitutional amendment is not going to be favorably acted upon by this Congress, especially this year.

The thing that continually intrigues me is there is an increasing belief or there is an increasing attitude, I guess would be a better way to say it, an increasing attitude in this country towards a belief that we do not ever have to face up to this situation.

In my own State, while I was Governor there, and all of those who preceded me, we lived within our means because the constitution required us to. During my 4 years as Governor of my State we built up and I left very substantial surpluses, and during that same period of time our State enjoyed unprecedented economic growth, and I might add population growth, although that was not one of my goals. I am sort of like Tom McCall—I am happy for people to come and visit with us, but I am not interested in their staying, because we have only a little over 2 million people and our land space is about like Ohio, or, say, 25th in the Nation. I can see some of the things happening to us that have happened to other States that have grown in sort of a haphazard manner.

But, be that as it may, I realized while I was Governor, that the United States could operate under the same provision we operated under. We had a formula built in. If we did not take it in, we just

did not spend it. Everybody had to cut back in accordance with a predetermined formula. So, I will not belabor the point, Mr. Chairman, but I simply wanted to lend my name to those people whom I consider to be fiscally responsible in this country and in recognition of the fact that this is a problem which must ultimately be dealt with. Unless it is dealt with soon, in my opinion, it will be too late.

I made a speech in Memphis the other night, and I did a little research before I left, and I found that the interest that we are paying now on our debt far exceeds what our budget was about 25 years ago. Obviously this is one of those things I wish we did not ever have to face up to. It is not very pleasant. It is not pleasant in our private lives, and not pleasant for States, and it is not pleasant for the Federal Government.

Senator SCOTT. Senator, it is good for you to be here, and your statement will be included in the record. We appreciate your comments, especially as a former Governor of your State. Our own Governor of Virginia is taking a lot of flak today because he is trying to keep the budget of Virginia in balance and, among other things, he did indicate that the State aid to schools would be cut back 5 percent. You can understand that is something——

Senator BUMPERS. Not calculated to win many friends.

Senator SCOTT. It did bring a big howl out of many of the people, and so he is trying to do that at the State level. I commend him and I commend you for being here with us and for your support.

Senator BUMPERS. Thank you, Mr. Chairman, for allowing me to come.

Senator CURTIS. I wish to thank the Senator.

[The statement of Senator Bumpers follows:]

STATEMENT OF SENATOR BUMPERS IN SUPPORT OF SENATE JOINT RESOLUTION 93 BEFORE THE SUBCOMMITTEE ON CONSTITUTIONAL AMENDMENTS OF THE COMMITTEE ON THE JUDICIARY, OCTOBER 7, 1975

Mr. Chairman and members of the committee, I am indebted to you for this opportunity to appear and discuss with you a proposed constitutional amendment to prohibit deficit financing by the federal government. The proposal, which is before the subcommittee as S.J. Res. 93, is sponsored by Senator Talmadge and a number of other members, including myself.

Perhaps a brief explanation of the proposed constitutional amendment would be in order by way of introduction. Section 1 would simply prohibit expenditure by the United States in excess of its net revenue during any fiscal year. The prohibition would not be absolute, however. Under Section 2 deficit in any given year could still be resorted to if the United States were in a state of war declared by Act of Congress, or if, with respect ot that fiscal year, the Senate and House of Representatives adopted a concurrent resolution, stating in substance that a national economic emergency exists that requires the suspension of the general prohibition on deficit financing.

Mr. Chairman, this proposal is a moderate one that would reestablish fiscal responsibility on the federal level without putting the United States into a financial straitjacket. In exercising their power to adopt an emergency concurrent resolution, the Senate and House of Representatives would, under the terms of the proposed amendment, take into account the extent and rate of industrial activity, unemployment, inflation, and such other factors as they deem appropriate. In addition, Congress would have power to carry out the proposed constitutional amendment by appropriate legislation.

The amendment would, in other words, set a general policy of the United States against deficit financing. This is not to say that deficits are always undesirable. There are situations in which they can serve a useful public purpose, and if such a situation, amounting to an emergency should arise, the Senate and the House could meet it by agreeing to a concurrent resolution adopted pursuant to Section

2 of S.J. Res. 93. The virtue of this proposal, however, is that it would compel the Congress to admit explicitly that a national economic emergency exists before deciding to spend more money than is taken in any given year. The general policy of the United States would be against deficit spending, but exceptions to that policy could be made in exigent circumstances.

Mr. Chairman, such a fundamental approach to the fiscal problems of this nation might not be necessary, were it not for the fact that during the last several decades deficit financing has become the rule rather than the exception in this country. Although the United States, as a sovereign power, has the power to print money to a theoretically unlimited extent, the fact is that the federal government cannot forever live beyond its means, any more than a state or a city can. The time will come, if it has not already, when continual resorting to deficits will so far erode the value of the dollar that this nation will face the equivalent of bankruptcy.

Inflation, which in my judgment is still the most serious long-range economic problem facing this nation, is a complex phenomenon, contributed to by many factors, but it should be undisputed that large federal budget deficits are one of the major contributing factors causing the almost constant decline in the value of the dollar. Of late, the problem has been getting much worse, rather than better. Let me share with you as an illustration a brief tabulation of the amounts of budget deficits and surpluses for the fiscal years since 1965. The budget was in surplus only one of these years, 1969. For each of the other years in this twelve-year period, the budget was in deficit.

The figures are as follows:

Deficit or surplus

Year:	*Millions*
1965	−$1,600
1966	−3,800
1967	−8,700
1968	−25,200
1969	+3,200
1970	−2,800
1971	−23,000
1972	−23,000
1973	−14,300
1974	−3,500
1975	−44,200
1976 (at least)	−59,900

In other words, the anticipated budget deficit for fiscal year 1976 alone is at least $59,900,000,000 and probably a good deal more. The deficits of half a dozen years alone in the above table add up to nearly $190,000,000,000, more than the entire gross national product of this country as recently as just after World War II.

In addition, there is immediately apparent from this table a significant fact about the trend—that is worsening, not improving. In the last two fiscal years, the total deficit (assuming that the fiscal year 1976 figure does not increase, which is probably a doubtful assumption) amounts to $104,000,000,000. Present prospects for fiscal year 1977 give no cause for optimism that the trend is going to be reversed.

I am aware of the necessity, in economic times such as these, for the federal government to provide the stimulus for recovery and full employment, but the continuing dependence on deficit spending is a tribute to our unwillingness to discipline ourselves, or coordinate our tax structure and spending polices.

Mr. Charman, S.J. Res. 93 presents a flexible approach to the issue of a fiscal responsibility, which must be ultimately resolved. It would not require the country immediately to go "cold turkey," but instead would give Congress the power to wean the nation away slowly from the drug of deficit financing, a drug that has proved habit-forming.

I respectfully urge that the subcommittee favorably report S.J. Res. 93 for consideration by the full Committee on the Judiciary.

Thank you very much for your courtesy in permitting me to appear.

Senator SCOTT. Now if we could hear from Mr. Bonner.

Mr. Bonner, just proceed in your own manner, but with the admonition you heard before. It is about 3 minutes to 2 p.m.

STATEMENT OF WILLIAM BONNER, NATIONAL TAXPAYERS UNION

Mr. BONNER. Well, I have prepared testimony, so I will not bother taking up your time with that. I would just like to make one point that I have noted during the discussion of this measure, and that is that the function of deficit financing is to expand Federal spending beyond what the people will voluntarily support. So, in addition to being economically disadvantageous, this method of financing is also undemocratic, devious, and perhaps even dishonest.

The purpose of the Federal debt is to allow the Government to pursue its programs and policies. The question is, do the American people want the programs enough to pay for them. The answer, of course, is no. If the price tag were presented along with the product, there is no doubt that the taxpayers would turn it down. Furthermore, if deficit financing were presented to the taxpayers in the form of a referendum, it is clear they would turn that down, too.

Thus, I think if taxpayers had any direct say in Federal financing, they would refuse to impose a huge burden of debt on themselves and their children in exchange for the doubtful benefits of Federal spending.

Thank you.

[The prepared statement of Mr. William Bonner follows:]

OCTOBER 7, 1975.

In the progress of things there is often a noticeable gap between common sense and the studied opinions of the experts. Sooner or later, though, the gap must close—either by a modification of the common sense view by new facts or a rejection of the "expert" view.

In the field of political economy such a gap has long been in evidence. On the one hand, there have been a steady stream of experts who have maintained that balancing the federal budget was not necessary—and, indeed, not even desirable. And, on the other hand, the view of the average person, and the common sense view of many trained economists, as well, was that no person or institution can continue to wrack up huge deficits without some rather dreadful consequences—sooner or later. A recent column in the Washington Post illustrated the phenomenon rather well when it remarked that though the man on the street views the national debt as perhaps the most important problem we face, the "expert" economists to whom the government has listened, don't consider the national debt a problem at all.

But the gap between common sense and the "experts" is closing rapidly. In the last two years an overwhelming bulk of evidence has come to light which proves the "experts" were wrong.

The "experts" promised us prosperity without inflation. Instead they brought us inflation without prosperity. We were told that governemnt borrowing would "prime the pump", create more jobs, and keep tax levels manageable. Instead, government has flooded the capital market with its paper and shorted out the pump altogether. It has misled industry with false demand signals thereby causing malinvestments which have decreased the number of productive jobs. And, in order to service its debt, (which has become the federal government's third largest expenditure), tax levels have reached insufferable heights.

In short, the "experts" have made a very poor showing. In any other line of work, they would probably find themselves out of a job. Even the most charming magician couldn't expect to repeat a performance like that.

None of this, however, is really surprising. When one takes a careful look at the process by which deficit spending was supposed to achieve its beneficial results, it's not difficult to see what went wrong.

As Lord Keynes noted, imbalance budgets can, in some circumstances, cause a temporary upswing in the economy. They do this by seducing resources, including human resources, into uneconomic activities. Money which would be saved and invested in productive industry is instead turned over to the government and handed out in politically favored ways. The process of money going from

private citizens to government and back (to other private citizens) causes the upswing.

There is no reason why shifting the money around like this should lead to genuine prosperity—especially when a good part of it ends up in the hands of bureaucrats, defense contractors and welfare recipients—people who might otherwise be leading productive lives. But, the fact is, that shifting the money around, itself, was the object of the policy.

There are few responsible economic theorists who maintain that indefinite deficit financing is a healthy economic situation. Lord Keynes himself, pointed out that deficit spending would have to be balanced by a compensating surplus in succeding years. (A point which the advocates of deficit spending have chosen to ignore.) Even the Marxist economists recognize the harm which unbalanced budgets can do. The official Marxist analysis is that the United States will destroy itself with deficit spending. Conservatives who have long opposed unbalanced budgets need not feel alone.

The advocates of deficit spending like taking money from one person and giving it to another. And that is really what deficit spending does. The economic benefits go directly to the person on the receiving end. The idea, supposedly, is that government distributes money with more justice than private commerce. Thus, many advocates of deficit spending see themselves as helping the poor, or meeting pressing social needs.

This is truly a remarkable concept, one which appears to ignore much of the actual evidence. The main component of government spending does not go for "pressing social needs" or for the poor. After a generous share is skimmed off the top for administering its programs, government gives most of the remainder back to the middle class. Thoughtful studies have borne this out time and time again. Deficit financing is simply a means for government to surrepticiously shuffle money around. If government wanted to be honest and straightforward about it, it would simply increase the tax level to pay for its programs. After all, what heartless citizen would not willingly pay more taxes in order to achieve more social justice, aid the poor, and as a bonus, create prosperity?

Getting back to the real economic effects, as opposed to the rhetorical advertisements, of unbalanced budgets, it should be pointed out that not only do huge deficits not bring prosperity, they virtually guarantee economic stagnation. Government takes money out of the capital market and uses it for immediate consumption. As consumption increases the economy takes on the appearance of vitality. But, the extra spending has to come from somewhere. In this case, it comes from savings. Looking at society in terms of the total economic resources available rather than the total amount of money in circulation it is easy to see that the amount of resources consumed can only be increased if the amount of resources saved is decreased. In a process which farmers would call "eating your seed corn", deficit spending permits government to direct a greater proportion of resources for consumption, leaving less for capital investment. With potentially disastrous results, private capital markets are depleted to finance government's consumption. This is why the United States, after years of deficit spending is investing only 13.6% of its national output in productive capacity as compared to 20% in West Germany and 29% in Japan (U.S. Treasury Statistics).

In the world today, capital is the most important ingredient for progress and prosperity. It is this fact which accounts for the lack of prosperity in many countries around the world which have an abundance of natural resources and labor. Historically, governments which have fostered progress and prosperity are those which have interfered the least in the formation and investment of capital. It may be concluded from this that if government really wants to promote true prosperity, it will refrain from gobbling up savings in order to satisfy its appetite for cash. Likewise, if the government wishes to encourage economic stagnation, it should continue to eat up the seed corn of American industry.

In whatever economic system one chooses, the effects of financing immediate consumption out of savings are bound to be ruinous. Yet, the appeal of gettng something for nothing, paying today's bills with tomorrow's prosperity is clearly irresistible. And that is why the National Taxpayers Union is in favor of Senator Curtis' proposal to require, constitutionally, a balanced federal budget. Such a measure, we feel, would greatly increase the stability and manageability of the federal budget. It would be an immeasurable aid to financial planners both public and private. It would help bring inflation under control. It would free a great deal of money for investment in productive industry, create jobs and consumer

products. And, it would free legislators from the pressure which the beneficiaries of deficit spending put upon them.

Thank you.

Senator SCOTT. We appreciate your comments, Mr. Bonner.

Your statement will be received and incorporated in the record.

I am fearful that what Senator Bumpers said is accurate. It may be that what we are trying to do will not come to pass, but it is not through lack of effort by Senator Curtis.

Senator CURTIS. May I ask, Mr. Chairman, would you tell us a little bit about the National Taxpayers Union?

Mr. BONNER. The Taxpayers Union has about 20,000 members, coast to coast. Somebody referred to us as the tightwad's common cause. I think that pretty well sums up our position. We are a public interest lobby. We are totally independent, nonpartisan, and we try to act as representative of the average taxpayer as much as we can.

Senator CURTIS. And you favor a constitutional amendment to compel a balanced budget?

Mr. BONNER. Yes; I believe my written statement will show that.

Senator CURTIS. Mr. Chairman, pursuant to the permission granted earlier, when Chairman Thurmond was presiding, I presented the statement of Senator Goldwater, the statement of Congressman Crane, the letter of support from the Governor of Alabama, Hon. George C. Wallace, a telegram in support of the amendment from Hon. Mills E. Godwin, Jr., Governor of the State of Virginia. I ask, Mr. Chairman, unanimous consent that any witnesses not reached before we find the time that we must adjourn here, that their testimony be received and printed as if delivered.

Senator SCOTT. All of those statements will be received for the record, and of course the request of the Senator is granted.

[The information referred to follows:]

STATEMENT OF SENATOR BARRY GOLDWATER BEFORE THE SENATE JUDICIARY SUBCOMMITTEE ON CONSTITUTIONAL AMENDMENTS

HALTING MONETARY INIQUITY BY A BALANCED BUDGET

Mr. Chairman, it is a pleasure to join with you today for this important set of hearings regarding consideration of a Constitutional Amendment compelling the Federal Government to operate with a balanced budget. I am a sponsor of this proposal, S.J. Res. 55, which is authored by my good friend, Senator Curtis.

Nothing is more important than securing the honor and credit of America by keeping the value of its money strong. The confidence of the people in their currency preserves our entire system of private property, the idea that when a person earns something and earns it fairly, it is his or hers to keep and no one can arbitrarily take it away.

But what happens if public faith in the nation's money is shattered by not tending to its value? Private property is wrecked; the aged retired find their savings melting away; the earnings of workers dwindle in purchasing power before they have time to spend what they make; confidence in the nation depreciates among the international community as fast as its currency at home does.

These are not scare phrases. The current difficulties of the economy are as nothing compared with the real experience of past Americans with the evils of inflation resulting from fiat money. In this, the opening of our bicentennial season, I suggest we remember the tribulations of the patriots who won independence for themselves and their descendants. Let us recall that the very conditions that the proposal before these hearings is intended to prevent did occur, with a vengeance, throughout the United States in the period of the American Revolution and afterwards, until the financial system of the government was placed upon

an adequate foundation of taxes equal to expenditures. This episode in our early history is particularly relevant because the solution turned to then is the same answer to our financial ills that is provided in the Constitutional Amendment we propose today.

Mr. Chairman, let me review briefly with you this episode from the early years of our country. The problem which faced the Second Continental Congress meeting in 1775 was how to pay for the war which the thirteen independent colony-states had agreed to wage "for the defense of American liberty." Pledging the faith of America to redemption, Congress resorted to printing paper money, as fast and for as long as the people would bear. The theory was that the State legislatures would vote specific taxes which would bring the currency, after a planned period of circulation, back to the government for cancellation. Congress' resolution to raise an army in June of 1775 was therefore followed by another to print paper money in the amount of two million dollars. To that sum, was added another million one month later.

The printing presses rolled faster in the future as another three million dollars of fiat money was approved in November and some fourteen million dollars was circulated in 1776. It is a remarkable testimony to the widespread support which independence received in America that twenty million paper dollars circulated in this manner for some two years without any depreciation. We are told by Dr. David Ramsay, a contemporary historian of the Revolution, that the enthusiasm of the great majority of the citizens for defending the endangered liberties of America, and their recognition that the credit of their paper money was necessary to a proper defense, kept this financial system afloat during the important, opening years of the contest. But, writes Ramsay, "Every thing human has its limits."

The flood of paper money continued until 1780, when two hundred millions had been printed. Besides this immense sum, the paper emissions of the several States exceeded another two hundred million dollars, surpassing the deluge of Continental money. The States not only failed to levy taxes sufficient to redeem these emissions, but they did not even make possible the paying of interest on the national debt. Nor would the States allow Congress to raise income of its own by collecting customs duties.

The depreciation of money which set in became general about the middle of 1777 and progressively increased. By the end of 1777, the depreciation was about two or three for one; in 1778 it advanced to five or six for one; in 1779 to twenty seven or twenty eight for one; in 1780, to fifty or sixty for one. Continental money continued in circulation for the first four or five months of 1781, but in this latter period, many would not take it on any basis, and those who did received it at a rate of several hundreds for one. In this year, Dr. Ramsay reports, Continental money expired "without a sigh or a groan."

Only providence and patriotism saved our finances. For it was at this moment when a great deal of gold and silver was introduced into the United States by trade with the French and Spanish West Indies and by the newly-arrived French army in Rhode Island. In addition, the King of France gave the United States a subsidy of six millions in French money and became security for ten millions more. Eventually the administration of George Washington assumed these past debts and redeemed the credit of America.

The lesson of the above history is that it can happen here. As terrible as is the horrifying specter of inflation run rampant in post World War I Germany, we can find our own example at home. In Washington's words, the spectacle of "a great and accumulated debt, ruined finance, depreciated money, and want of credit (which in their consequences is the want of everything)" had haunted the struggle for independence.

Washington complained that such "momentous concerns . . . are but secondary considerations and postponed from day to day, from week to week, as if our affairs were the most promising aspect." So it is today, when inflation caused by a fundamental flaw in the financial policies of government is not taken seriously enough to adopt the only remedy assured of success.

This remedy was obvious to the early administrations of the Republic, under Washington and Jefferson, who restored public faith in the government's finances, and it should be obvious to us today. Their policy was one of strict governmental economy and definite provision for the retirement of the national debt. Jefferson, for example, did not only *not* exceed his budget during his eight year term of office, but he was able to actually reduce by almost a third the then massive debt that he had inherited from the war-time Adams Administration.

The parallel with modern society is all too evident. With an overwhelming national debt of some three hundred ninety billion dollars, we are pursuing economic policies that may add another eighty eight billion dollars to this red ink in the current fiscal year alone. Will we once more reach a situation in America where nearly all the citizenry have lost faith in the value of the American dollar? Will the present day Congress, as did the legislatures of the founding years, refuse to levy the taxes necessary for operating government on an efficient basis? Or will we heed the principles of Jefferson, who believed that every generation should be free from the oppression of inherited debt and should not transmit its own burdens to future generations?

Mr. Chairman, the answer to this challenge, in my opinion, is in the Constitutional Amendment we are proposing. If the President and Congress together are required to have the Federal Government live within the budget they set for it, by raising sufficient revenues to match outlays, then the back of inflation will be broken. If the principle of fiscal soundness which the Founding Fathers had come to realize is the only sure means of financial success for governments, as well as for individuals, is raised to a Constitutional doctrine, it will carry the nation ahead towards the goal of prosperity free of the weight of political weakness that has sunk the economy in the past. If individual American citizens must be taxed directly and immediately for the benefits which all or part of them will obtain from governmental programs and services, instead of suffering the hidden and gradual ill of inflation or postponing the day of reckoning to an unborn generation, we will see a sense of fiscal responsibility among our elected officials and the electorate themselves which has almost become forgotten in America.

It was not a light decision for me to join my name as a sponsor of a change in the Constitution, but this Amendment is, in my opinion, a restoration of one of the fundamental principles which the Framers of the Constitution assumed would be adopted in governing the affairs of the United States as a matter of due course. If the people should adopt this Amendment, they would in truth be returning to one of the first principles, left unwritten, but founded upon the hard schooling of the Revolution.

Mr. Chairman, my decision also rests upon my concern for what a continuation of national deficits will mean to the future of the American people and to the future of their children and grandchildren. The crisis we face is described by historian Arnold Toynbee, who writes:

"The enemy now is an impalpable and invisible but remorselessly hard fact. It is the impossibility of spending more than one is earning without going bankrupt."

And that is precisely the reason I see complete disaster unless we adopt a balanced budget as a Constitutional principle.

Testimony of Hon. Philip M. Crane, October 7, 1975

Mr. Chairman, I appreciate this opportunity to present my testimony, and I thank the Committee for its consideration of my views on this most important question of a balanced federal budget.

For a number of years now, I have been concerned about the growing deficit in the federal budget and the impact of this deficit on inflation and capital investment. Release of the President's budget for fiscal 1976, with its $52 billion deficit, heightened my apprehension and the steady escalation of the estimated budget deficit since then has done nothing to alleviate my fears about the direction in which our economy is headed. I commend my colleague, Senator Curtis, on his proposed constitutional amendment to mandate a balanced federal budget, and I have introduced identical legislation in the House of Representatives, H.J. Res. 5.

A balanced federal budget is more than a politically pleasing proposal. It would guarantee that the federal government live within its means, freeing the available capital for investment purposes, limiting the galloping interest rate, increasing domestic productivity and stimulating growth and thus jobs in the economy. When the federal government's expenditures exceed its income, it must borrow. As the available capital is depleted, the interest rates will increase, which affects all American citizens.

Taxes will also increase, as the available capital becomes more difficult to obtain, and the government seeks alternative means for funding the deficit. Finally, the government can, and will, print more bank notes to cover its debts. This

action, of course, decreases the purchasing power and the value of the dollars already held by the American taxpayer.

The net effect of these actions is to decrease the amount of capital available in the private sector for investment purposes; decrease incentive, which is so necessary to sustain productivity levels; and spark a new round of recession-inflation.

Ultimately, any discussion of a balanced federal budget must lead to a basic question: what specific programs are to be cut or reduced? Or, in other words, how can the federal government "afford" a balanced budget?

In order that the potential viability of a balanced federal budget might be demonstrated, I have proposed a tentative plan which would produce a balanced federal budget for fiscal 1976. I welcome this opportunity to briefly sketch this plan today.

In proposing these budget reductions, I have touched all fourteen functional areas of the federal government, with the nature and the size of the cuts being determined by six basic premises.

1. Any program vital to national security will not be cut. This restriction does not, however, exclude the Defense Department from its share of reductions.

2. Businesses, agricultural interests and individuals should rely on their own initiative, not that of the federal government.

3. Excessive government regulation has adversely affected our free enterprise system with no substantial gain for the government or the taxpayer.

4. Programs which have not been successful should be ended, and those which can be delayed should be postponed.

5. Special interest group programs and benefits must be ended or reduced, in the double interest of equity and budget restrictions.

6. All other program reductions should be as uniform as possible. Therefore, programs not affected above should be rolled back to the fiscal 1974 levels. This would have the secondary effect of encouraging greater administrative efficiency and the elimination of waste and duplication.

The national defense budget can be reduced a total of $5.75 billion, primarily in the areas of personnel. As 53 percent of our defense dollars now are directed to the supporting costs of defense personnel, a reduction of this size will not compromise the deterrent capability upon which our national security rests.

In the budget for foreign policy, a reduction of $4.963 billion can be sustained. The bulk of these reductions would be borne by the foreign aid appropriations, which would necessarily be limited to those areas in which our dollars will promote the national interests of the United States.

The space and technology funding can afford a $190 million reduction, primarily by reducing current expenditures to the fiscal 1974 levels, and by eliminating the waste and duplication currently demonstrated by space research and development.

The budget for natural resources, environment and energy presents a unique difficulty: the national necessity to conserve both our environment and our energy resources. Consequently, this funding can be reduced by just $3.07 billion, chiefly by limiting the budget to the fiscal 1974 level, and by eliminating some promotional line items which benefit small groups and organizations at general expense.

The level of funding for agricultural programs has, in fact, decreased sharply since fiscal 1969. The figures show that aggregate farm income has, with the exception of last year, increased dramatically since 1969. All evidence would point to the wisdom of continuing the reduction in agricultural spending, especially in the area of agricultural price supports and automatic disaster payments. This budget can afford a reduction of $812 million.

The expenditures for education, manpower and social services can sustain a substantial reduction of $4.05 billion. The spending limitations would fall primarily in the area of grants and loans for higher education, which now constitute an expensive and unjustified federal expenditure. Other educational programs must be limited to the fiscal 1974 levels. Social services programs, including manpower training, must also be limited to the fiscal 1974 levels. The decrease in funding can be borne chiefly in the area of administrative costs.

The community development budget can absorb a decrease of $4.62 billion. Proposed areas for elimination in this budget include special interest group expenditures, such as aid for Appalachia, and unsuccessful programs in the area of "community development," such as the Model Cities program. The remainder of the budget can be reduced to the fiscal 1974 level.

The funding level for commerce and transportation can be reduced significantly by $8.29 billion. The primary areas for reduction are in the elimination of subsidies to transportation industries and in the elimination of the Interstate Commerce Commission and the Federal Trade Commission, which have both outlived their usefulness to our over-regulated economy.

Some reductions can be absorbed by the health budget for a total savings of $723 million, less than 3 percent of our current health budget. After eliminating the Occupational Safety and Health Act of 1970, the remainder of the reduction would be secured by returning to fiscal 1974 levels in existing programs.

The public assistance—income security funding level can be reduced very substantially by $10.62 billion. The chief vehicle for this savings is massive, sweeping reform in our nation's entitlement programs. Such reform would decrease the total expenditure for public assistance and, at the same time, crease the benefits available for the truly needy.

The expenditures for veterans' benefits can be modestly reduced by $260 million, primarily by limiting the increases in benefits to 5 percent and by curtailing the construction of new facilities for the present time. Administrative costs at the Veterans' Administration can also absorb some reduction.

Spending for law enforcement and justice can be reduced by $1.15 billion, chiefly by eliminating two programs which have eroded local responsibility considerably: the Law Enforcement Assistance Administration and the Legal Services Corporation. Also, increased efficiency would permit the further reduction, primarily in administrative costs, of the various law enforcement agencies of the federal government.

General government expenditures, especially in the areas of public financing for campaigns and expenditures for administrative costs of the three branches of government, can be reduced by $801 million.

Finally, the "budget allowances" section of the President's proposed budget can be reduced by $7.55 billion, which would force the government to be more judicious with the expenditure of the money already allocated for the year's budget.

I will note at this point that the budget reductions I have proposed would result in a budget surplus of over $900 million for fiscal 1976, if revenues remain at the same level.

I trust that this outline has demonstrated the viability of a balanced federal budget, and I urge my colleagues in the Senate to endorse Senator Curtis' proposed constitutional amendment.

Without a balanced federal budget, and the fiscal restraint it entails, America is doomed to continuing inflation, high unemployment, high interest rates, more business failures, increasing unemployment, and, possibly, a depression. At some point, we must pay for our previous extravagances. Every year that we delay means that the final price will be dearer and more tragic for millions of Americans.

If adopted, this proposal to mandate a balanced federal budget will turn this trend around, and return us to the road toward fiscal responsibility.

STATE OF ALABAMA,
GOVERNOR'S OFFICE,
Montgomery, Ala., October 1, 1975.

Hon. CARL T. CURTIS,
House of Representatives,
Washington, D.C.

DEAR MR. CURTIS: Please know that I appreciate your letter and your invitation to respond to your proposal for a Constitutional Amendment that would require the Federal Government to operate under a balanced budget. Certainly I commend you for your effort in this regard as this is a worthwhile goal to accomplish.

As Governor of a state which requires, under our Constitution, that we operate under a balanced budget I can attest to the advantages of such a provision. In Alabama's situation, no bonds may be issued which pledge the full faith and credit of the state without a vote of the people, with the exception of Revenue Bonds, which are tied directly to a particular source of revenue. Operating under a balanced budget, in my opinion, would help eliminate wasteful spending at any level.

I do not need to tell you or your colleagues that Federal spending has gotten out of control. Nor do I need to tell you of the necessity to end deficit financing.

I feel that unless we accomplish both these ends we will not see an end to the spiraling inflation that has broken the backs of the middle America taxpayers who work for a living and hold this Country together.

The average taxpayer has been saying for years that if we continue to spend more money than we are taking in, we are going broke. These taxpayers are even more perturbed when they realize how much of their money is being wasted on programs that do not accomplish their goals or benefit those for which the programs were intended. The people are tired of paying for this waste while sinking deeper and deeper in debt.

I know that any such amendment to the Constitution would need to contain the safeguard that would allow our Government to operate under hardship conditions, national emergencies or time of war. However, I feel that steps must be taken now to return sanity to Federal spending and bring the budget under control.

With kindest regards, I am

Sincerely yours,

George C. Wallace,
Governor.

[Telegram]

Richmond, Va., *October 6, 1975.*

Hon. Carl T. Curtis,
U.S. Senate,
Capitol Hill, D.C.

Because of my inability to appear in person before the Judiciary Subcommittee tomorrow, I take this means to express my strong support of the principle underlying S.J. Res. 55 and S.J. Res. 93 for constitutional amendments. Without firm restraints on Federal expenditures, the Nation's solvency will be further jeopardized and the welfare of every citizen endangered. Either your proposal or that of Senator Talmadge offers the means to achieve a balanced budget, a goal long overdue and no longer deferrable.

Mills E. Godwin, Jr.,
Governor of Virginia.

Statement of Hon. Jack Kemp, Representative To Congress From the 38th District of New York, October 7, 1975

Mr. Chairman and members of the subcommittee, this subcommittee is to be commended for holding these important hearings on proposed Amendments to the Constitution which would require balanced Federal budgets.

These hearings will help both Members and the people in whose trust we exercise our responsibilities to understand more fully the consequences of deficit public spending over a sustained period of time.

Proposals to amend the Constitution are to be thoughtfully weighed. That in the past 186 years, only twenty-six Amendments have been both passed by the Congress and ratified by three-fourths of the State legislatures is proof of the gravity with which these proposals are considered. The Constitution should be amended only when there is need to remedy a flaw in the institutional mechanics of how the Nation is governed. In my opinion, the proposed Amendments under consideration here today qualify for such consideration.

I believe they qualify for at least three reasons.

First, Federal expenditures exceeding Federal revenue year after year—and even in prosperous, "boom" years—indicates the inability of the majority within the Congress, the branch of government charged with the Constitutional responsibilities for both raising revenue and appropriating funds for programs, to exercise sufficient, voluntary self-restraint. When voluntary restraint has been inadequate, mandatory restraint in the form of a Constitutional Amendment is an appropriate remedy.

Second, the substantial growth in Federal deficits—deficits in 38 of the past 45 fiscal years and an increase in total Federal indebtedness of $207 billion since 1960—has had an adverse impact upon our economy, weakening it through the inflation fostered by the too rapid expansion of money supply which accompanies monetizing the deficit and through the shifting of crucially needed investment capital away from the private sector and into the Federal treasury, both of which were principal causes of the current recession.

Third, the substantial growth of government expenditures in relation to the total income of the people has been at the expense of the people and the private

sector not only in economic terms but also in terms of their liberty, for as an ever-increasing share of private earnings are taken from the people to pay the bills of government, the exercise of freedom is endangered through a narrowing of alternative choices for economic conduct.

It is for these reasons—and I will return to them in a moment—that I have been active in the House on these issues. I have introduced joint resolutions and bills to accomplish objectives reflected through S.J. Res. 55, the joint resolution introduced by Senators Curtis, Hruska, Fannin, Goldwater, Laxalt, McClure, Scott of Virginia, Thurmond, and Garn, and S.J. Res. 93, the similar joint resolution introduced by Senators Talmadge, Helms, Nunn, and Thurmond. I am informed by the Congressional Research Service that approximately 100 Members of the House have sponsored measures to require a balanced budget either in proposed statutory or Constitutional Amendment form.

In the 93d Congress, I introduced H.J. Res. 816, a joint resolution proposing a Constitutional Amendment to provide a limit, established in relation to national income, on both Federal revenue and expenditures, a consequence of which would have been mandatory balanced Federal budgets except in times of Congressionally declared national emergencies. Later in the 93d Congress, I introduced a series of bills, culminating in H.R. 17032, to reestablish the fiscal integrity of the Government and its monetary policy through the establishment of controls with respect to its revenues and budget outlays, the issuance of money, and the preparation of the budget. These measures to enact the Fiscal Integrity Act were cosponsored by over 40 Members of the House. The proposed Act has been reintroduced, with amendments, in the 94th Congress, most recently as H.R. 8582, and those measures have nearly 60 House cosponsors.

The purpose of these measures, as is the purpose of the Senate joint resolutions, is to bring spending more in line with revenue, and, inasmuch as Congress will be much more reluctant to finance expenditures from tax and other revenue than it has been from deficits, to slow the growth of government in relation to the total economy.

Let me return, therefore, to the three reasons why I believe the balanced budget and revenue/expenditure limitation approach has to soon be the law of the land, either through statute or Constitutional Amendment.

THE LACK OF ADEQUATE CONGRESSIONAL RESTRAINT

The Congress has tried for nearly 200 years to control overall, total Federal spending by controlling the overall level of appropriations as each individual appropriations bill came to the floor. These efforts—commendable though they may be and successful though some may have been—simply have not worked. The figures are proof of this failure.

The Federal budget for fiscal year 1976 is projected now at $367 billion, some $83 billion over the budget year before last. In 1940, by contrast, our Federal budget was $10 billion.

It took this country 185 years to get to an annual Federal spending level of $100 billion, but it took only 9 more years to double that to the $200 billion level, and then only 4 more years to reach the $300 billion annual level.

The mushrooming national public debt has reached $500 billion—half a trillion. It took us over 150 years after 1789 to reach the $200 billion debt mark, then less than 20 years to double it to $400 billion, and then only 10 more years to add another $100 billion. But the rise in the debt quickens, not decelerates. The deficit for fiscal year 1976 alone is now projected officially at about $69 billion; many believe that is a very conservative projection.

The average amount of taxes the Federal Government will have to collect from every man, woman, and child in the Nation to meet expenses this year is $1,750—or $7,000 for the average family of four. In 1940 it was $77 per person—or $308 for that family of four. Of course, because deficit financing is a principal source of financing Federal programs today, the Federal Government will actually collect in taxes an average of about $1,415 for every man, woman, and child in the Nation—or $5,660 for the family of four. The remainder will be taken from them, of course, in decreased purchasing power—inflation arising from monetizing the deficit.

Look at the bureaucracy which this spending sustains. Between 1789 and 1974, the population of our country multiplied by 60 times. The bureaucracy multiplied by 8,170 times. Between 1930 and 1974, while the population grew 71 percent, the bureaucracy grew by 462 percent. In 1930, 1 of every 204 people was employed

by the Federal Government; today, it is 1 of every 77. And, in our work force of about 85 million, 1 of every 6.5 employees is on a Government payroll of one form or another—Federal, State, or local.

Look at the controls over our lives—and our economy—which this funding and this bureaucracy sustain. The United States Code Annotated, the basic compilation of Congressionally enacted statutes, now totals more than 55,000 pages. The Code of Federal Regulations—consisting of the regulations which carry those statutes into effect and which also have the full force of law—totals hundreds of thousands of pages. The Internal Revenue Code of 1954—the tax laws under which we all live—is now nearly 1,900 pages long, and the regulations which carry those tax laws into effect constitute another 4,500 pages. In addition, one is governed by the rulings and regulations of a myriad of Federal agencies, bureaus, departments, commissions, administrations, offices, and boards, as well as the rulings of our vast court network. We have come a long way since Moses brought the Ten Commandments—only ten rules to govern our lives—down from the Mount.

The effect on the people's freedom—by narrowing substantially the range of alternative choices of action available to the people—ought to be obvious.

Does one have economic freedom when one gives up over 40 percent of earnings to government?

Does one have economic freedom when one involuntarily surrenders purchasing power because of Government-created inflation?

Does one have economic freedom when one cannot plan his or her own future—for education, for business, for children, for retirement—because Government's policies are so unpredictable and so corrosive of his or her livelihood?

Does one have economic freedom when one cannot obtain a loan—for a small personal need or a massive corporate capital investment need—because Government has drained the Nation's capital money markets and in so doing created record-high rates of interest?

Does one have economic freedom when one cannot buy a product or pay a freely negotiated price for it because of shortages created by Government controls and because of those controls?

Does one have economic freedom when one cannot find a job because of what Government action has done to this economy?

All of these questions relate to the growth of government in relation to the economy and to the people. The growth of government has been at their expense.

Government spending—and the raising of revenue requisite to that spending—has a limit beyond which it invites either the collapse of the economic strength of a nation or the loss of economic and political freedom, or both.

Government must realize that it cannot indefinitely continue to take a larger percent of national income without destroying the people's ability to support themselves and their families, their incentive to work, and even their patriotism.

The figures which I have just recited attest to the failure of the Congress to hold the line on spending, or, in the alternative, to have the political fortitude to raise sufficient revenue through taxes to match that spending. I, for one, prefer to hold the line on spending, because I believe the level of spending is too high. The Budget Reform Act does not set forth requirements sufficient to meet this challenge either, for its ceilings are neither mandatory nor prospective.

In my opinion, the reason these efforts to control spending have not worked is that the temptations to spend are numerous and there is no constraint on the amount to be spent.

We have for too long tried to control the size of Government, in relation to the total economy, by controlling spending. We should have been trying to control that size by controlling the level of revenue.

This was and is the wrong way to go about it, because it is generally easier to control a problem at its source. The source, here, is the level of revenue raised by the Government from which programs are then funded. As long as the Government can cover over-spending its tax revenues by borrowing or printing new money, it will over-spend.

When an institution knows that it will have a known amount of dollars with which to work, it typically devises a means of spending those dollars. The problem is that with no spending limitation, Congress overspends revenue—so government can capture a greater percent of gross national product than the tax code permits. Parkinson's Law, thus, holds that spending rises to meet income.

I have hypothesized a corollary to Parkinson's Law which I first expressed in November 1973 and which, I believe, more accurately describes the tendencies

of the Congress: Present spending rises to exceed present income in expectation that future increases in income will cover that spending.

When an institution operates from those premises—and the Congress has operated from them for years—it means an ever-increasing deficit. As a result, dollars are taken from citizens through other means than the tax system.

The Fiscal Integrity Act addresses itself to this problem by establishing for each fiscal year a revenue and budget outlays limit for the Federal Government. No appropriation could be made in excess of the revenue and budget outlays limit for a fiscal year, except in cases of national emergencies declared by two-thirds of the Members present and voting in both Houses.

How would the limit work?

The revenue and budget outlays limit for each fiscal year shall be the amount derived by multiplying the estimated aggregate national income for such fiscal year by a "Federal revenue factor." Thus, from the first year of the operation of this provision, a ceiling in relation to national income is established on Government revenue and spending. As the economy grows, new dollars would be available for existing or new programs, but a greater percentage of the people's income would not be available.

One should note that a cut in outlays is accompanied by a cut in revenue—and vice versa—so that cutting revenue will not result in creating more of a deficit—as is now the danger—and cutting outlays should result in a cut in taxes, although a surplus would be automatically applied to the Federal debt with no carry-over to a succeeding fiscal year of any surplus permitted.

As to safeguards to protect the integrity of the Act, the resolution to suspend the limitation in time of national emergency would not only have to be passed by a two-thirds vote, but the suspension would apply only to the extent of meeting expenditures occasioned by the specific emergency and would apply only with respect to the fiscal year in which passed. If the suspension is to be continued beyond that fiscal year, the Congress must pass a new resolution allowing it. A vague, general, "times are tough" emergency resolution would not be allowable.

It should also be made clear that the power of the House Committee on Ways and Means and the Senate Committee on Finance with respect to tax reform is not impaired by this bill. Within the overall revenue limitation, those committees can carry out any degree of tax reform—increase certain taxes, reducing others—eliminating old taxes, imposing new ones—deemed necessary. Of course, the revenue limitation applies not only to taxes, but also to excises, imposts, and duties, and the power of the Committees with respect to those would remain within this new framework. The only limitation upon the Committees is that the total revenue collection not exceed that percentage established in relation to aggregate national income for that period.

Expenditures would include all costs to the Federal Government, including off-budget items, transfer payments, etc.

I believe the revenue/expenditure limitation approach to be preferable to simply requiring a balanced budget, because if the Congress decided to match greatly increased expenditures with greatly increased revenue, that would still be permissible in the case of only requiring a balanced budget, even if the percentage of Federal revenue borne to national income rose to 40, 50, or 60-percent.

I believe the Constitutional Amendment approach, as embodied in S.J. Res. 55 and S.J. Res. 93, is preferable, however, to the statutory approach of the Fiscal Integrity Act, for the statutory mandate would be overcome simply by the enactment of a subsequent, contradictory statute. We must realize, however, the formidable task before us in getting the necessary ratification of three-fourths of our State legislatures. The problems we would encounter would be exactly the same as those encountered in California during the debate on Proposition I in 1973. The proposed State Constitutional Amendment to set a revenue/expenditure limit for the State government was defeated, in very large measure, by opposition from county, municipal, and other units of local government. They argued, effectively enough to persuade the voters, that since no limit on the growth of government and its services had been set, that future growth would not only still occur as to overall government but that it would be at the expense of the local units of government. In other words, because State revenue/expenditures could not grow, local governments' revenues/expenditures would mushroom. This was quickly called the "pass down" thesis, and it was an effective argument.

In the case of a Federal Constitutional Amendment, the same arguments would be raised, the only change being the levels of government involved, i.e.,

since the Federal Government could not grow in relation to the economy and since the "national attitude" would remain supportive of growth in government services, the future growth of government would be "passed down" to the State and local levels.

That alone is not to be deplored, for there are many of us who still believe government is best when it is closest to the people; thus, a growth in State government is better than a growth in the Federal Government, and a growth in local government is better than a growth in State government. Nonetheless, our ultimate objective is a holding down of the size of government in relation to the total economy. This can be done only when the rate of all government growth is slowed, then trimmed. Perhaps the way to remedy this is to give the State and local governments a guarantee against the "pass down" by setting forth a proposed Constitutional Amendment to limit the growth of all government in relation to aggregate national income. It would certainly be an effective way to put into one camp or the other those with divergent points of view as to the role of government in relation to the individual. We would see quickly whether some of those who advocate individual freedom yet support more and more government programming of our lives would resolve in favor of individual freedom.

The text of the Fiscal Integrity Act is appended to my testimony, and I believe it should be incorporated in the published hearings at this point in the proceedings.

THE EFFECTS OF DEFICITS

Deficits have been the genesis of most of our economic troubles. Inflation, shortage of capital, recession, unemployment, declining productivity, and shortages of goods have the same basic genesis—deficit public spending.

Inflation and the crowding out of capital markets are the two immediate consequences of deficit public spending.

If a government's expenditures are in excess of its revenues from taxation, it has a deficit in its budget. The deficit must then be financed by borrowing. The Government has two sources from which it can borrow. It can borrow from the private sector of the economy and it can borrow from the Federal Reserve System.

When the Government finances its deficits by borrowing from the Federal Reserve, the U.S. Treasury prints bonds which it sells to the Federal Reserve. The Federal Reserve pays for the bonds by creating new money. This transaction increases the supply of money relative to the supply of goods. Total expenditures increase relative to the supply of goods, thus forcing the average of all prices to rise. This in inflation, and inflation, the erosion of consumer confidence occasioned by it, and attempts to control it through devices other than reducing the deficits, such as wage, price and profit controls, bring forth shortages, then unemployment. Recession is a consequence almost unavoidable.

When the Government finances its deficits, on the other hand, by borrowing from the private sector, the U.S. Treasury prints bonds which are sold to commercial banks, private individuals, and business firms. In this case no new money is created. However, private investments decrease by the amount the Government's expenditures increase, leaving total expenditures unchanged but shifting decisionmaking and resources from the private to the public sector. In order to buy the Government's bonds, the private sector must reduce either its current consumption or its current investment. Private individuals might decide to consume less and buy more Government bonds, or to buy Government bonds instead of corporate bonds, stocks, and savings certificates. Banks which buy the bonds are left with less to lend to private industry. A shortage of the investment capital required to assure both job opportunities and higher productivity in the private sector results. Industry does not then have sufficient capital for replacement of outmoded equipment, an expansion of total equipment, or renovation or expansion of the physical plant. Jobs are jeopardized on a broad basis—in the industries supplying the equipment, in the construction industry, in the industrial plants themselves, in the industries to which goods now not produced would have been supplied. Again, recession is a consequence almost unavoidable.

We must also keep in mind that the extent to which private capital is transferred out of investment and into consumption is understated by the dollar size of the Government's deficit, because the borrowings of the off-budget agencies are not even included. Furthermore, in addition to the private capital formation which is pre-empted by Government borrowing, an enormous amount of private capital has been destroyed by the Government's inflationary policy. Profits have been overstated—and, thus, overtaxed. The decline in the market value of the stocks listed on the New York Stock Exchange is directly related to the un-

certainty caused by inflation. The decline in the stock market has prevented firms from raising capital through new stock issues. Thus, the negative impact of the Government's deficit on private capital formation is greater than the size of the deficit might suggest.

Against this background of economic realities, I cannot see how anyone can persist in the argument that public deficits create jobs. Yet, if there is any one common denominator of what the majority within the Congress has sought to do in recent months to help the economy recover from the recession, it has been the premise that deficits create jobs.

If deficits create jobs, then why is our country in the economic condition in which it now finds itself? From 1969 to 1974, the Federal debt went up from $382 billion to $504 billion, a $122 billion and a 32-percent increase. What happened in the jobs market? Did employment rise either commensurately or at all?

The fact is that it was unemployment—not employment—which rose with the deficits. It rose from 3.4-percent in 1969 to an average 5.3-percent in 1974. It now stands at 8-plus percent.

For further discussions on this point, I call the Committee's attention to the Remarks of Senator Proxmire on August 22, 1974, at pages S15778–81 of the Congressional Record (daily ed.), entitled "Reducing Swollen Federal Spending Will Not Increase Unemployment," and to Public Employment Programs, by Alan Fechter, a senior economist with The Urban Institute, published by The American Enterprise Institute for Public Policy Research, May 1975.

Mr. Chairman, there are many technical questions to be answered by this Subcommittee and by the adherents to the balanced budget and revenue/expenditure limitation approaches, but these hearings are the important first step to bringing heightened national attention to the proposed solutions to deficit financing and government growth, and, again, I commend the Subcommittee for having taken that step.

94TH CONGRESS
1ST SESSION

H. R. 4175

IN THE HOUSE OF REPRESENTATIVES

MARCH 4, 1975

Mr. KEMP introduced the following bill; which was referred to the Committee on Rules

A BILL

To reestablish the fiscal integrity of the Government of the United States, through the establishment of controls with respect to the levels of its revenues and budget outlays, and the preparation of the budget, and for other purposes.

Be it enacted by the Senate and House of Representatives of the United States of America in Congress assembled, That this Act may be cited as the "Fiscal Integrity Act".

FINDINGS

SEC. 2. (a) The Congress hereby determines that—

(1) it is the joint and several responsibility of the legislative and executive branches of the Government of the United States to reestablish the fiscal integrity of the Government through the establishment of requirements

I

that budget outlays not exceed revenue, that the issuance of additional money not contribute to inflation, and that each such branch have adequate capability to prepare the budget of the Government in a manner to insure the reestablishment and maintenance of such fiscal integrity;

(2) the Government has been, and is now, making budget outlays for nontrust budget items in excess of revenues received from all nontrust sources;

(3) such existing fiscal policy has resulted in substantial borrowing by the Government from both public and private sources, an increase in the public debt of the Government and the interest payments required to carry such debt, and an increase in the issuance of additional money;

(4) such deficit spending has contributed to inflation in the economy and an attendant lessening of the value of the dollar in terms of its ability to purchase goods and services in both domestic and foreign markets;

(5) allowing the continuation of policies and activities which lessen the fiscal integrity of the Government is detrimental to the general welfare of the people and ought, therefore, to be ended.

TITLE I—REVENUE AND BUDGET OUTLAYS CONTROL

SEC. 101. Section 3 (a) of the Congressional Budget and Impoundment Control Act of 1974 is amended by inserting the following immediately after paragraph (5):

"(6) The term 'Federal revenue and budget outlay limit' means an amount derived by the Congressional Budget Office according to the following formulas:

"(A) for the first fiscal year to which such limit applies—

$$L_X = .99975\left(\frac{R_{X-1}I_X}{I_{X-1}}\right);$$

"(B) for each of the twenty succeeding fiscal years—

$$L_X = .999975\left(\frac{R_{X-1}I_X}{I_{X-1}}\right);$$

and

"(C) for each fiscal year thereafter—

$$L_X = \left(\frac{R_{X-1}I_X}{I_{X-1}}\right)$$

where—

"'L_X' represents the Federal revenue and budget outlay limit for fiscal year 'x';

"'R_{X-1}' represents the estimated aggregate revenue of the Government for the fiscal year preceding fiscal year 'x';

"'I_x' represents the estimated aggregate national income for fiscal year 'x';

"'I_{x-1}' represents the aggregate income for the fiscal year preceding fiscal year 'x'; and

"'Y' represents the number of the fiscal year, counting the fiscal year to which the Federal revenue and budget outlay is first applied as zero.".

SEC. 102. Section 301 of the Congressional Budget Act of 1974 is amended—

(1) by inserting ", which, except as provided in section 403 (b), shall not exceed the Federal revenue and budget outlay limit" after "new budget authority" in paragraph (1);

(2) by inserting ", which, except as provided in section 403 (b), shall not exceed the Federal revenue and budget outlay limit," after "level of Federal revenues" in paragraph (4);

(3) by inserting after "appropriate committees" in paragraph (5) the following: ", but no such proposed increase shall be for the purpose or have the effect of causing revenues or outlays to exceed the Federal revenues or outlays to exceed the Federal revenue and budget outlay limit unless such limit has been suspended pursuant to section 403 (b)"; and

(4) by redesignating subsections (d) (3) through

(d) (8) as (d) (4) through (d) (9), respectively, and inserting immediately after paragraph (2) the following:

"(3) a comparison of estimated total revenues and total outlays, as set forth in the budget submitted by the President and as set forth in such concurrent resolution, with the Federal revenue and budget outlay limit, and the relation of the estimates of total new budget authority to the difference between such estimates of revenues and outlays, and such revenue and outlay limit;".

SEC. 103. Section 303 (c) (1) of the Congressional Budget Act is amended by inserting ", but which does not have the effect of increasing revenues or outlays above the Federal revenue and budget outlay limit," after "subsection (a) applies".

SEC. 104. Section 304 of the Congressional Budget Act is amended by inserting after "most recently agreed to" the following: "revenues or outlays above the Federal revenue and budget outlay limit unless such limit has been suspended pursuant to section 403 (b)".

SEC. 105. (a) Section 305 (a) (3) of the Congressional Budget Act is amended by inserting after "Rules of the House of Representatives" the following: "but no amendment shall be in order which has the effect of causing the total revenues or outlays proposed in such concurrent resolution to

exceed the Federal revenue and budget outlay limit unless such limit has been suspended pursuant to section 403 (b)".

(b) Section 305 (b) (2) of such Act is amended by inserting after "shall be received" the following: ", nor shall any amendment be received which has the effect of causing the total revenues or outlays proposed in such concurrent resolution to exceed the Federal income and budget outlay limit unless such limit has been suspended pursuant to section 403 (b)".

(c) Section 305 (c) (4) of such Act is amended by inserting after "shall be received" the following: ", nor shall any amendment be received which has the effect of causing the total revenues or outlays proposed in such concurrent resolution to exceed the Federal income and budget outlay limit unless such limit has been suspended pursuant to section 403 (b)".

SEC. 106. Section 307 of the Congressional Budget Act is amended—

(1) by striking out "budget outlays and" and inserting in lieu thereof "budget outlays, with"; and

(2) by striking out the period at the end of such section and inserting in lieu thereof ", and with the Federal revenue and budget outlay limit for that year.".

SEC. 107. Section 308 (a) (1) of the Congressional Budget Act is amended—

(1) by striking out "and" at the end of subparagraph (B); and

(2) by inserting after subparagraph (C) the following:

"(D) the impact of such new budget authority, and budget outlays resulting therefrom, on total budget authority and outlays with respect to the Federal revenue and budget outlay limit; and".

(b) Section 308 (a) (2) of such Act is amended—

(1) by striking out "and" at the end of subparagraph (A);

(2) by striking out the period at the end of subparagraph (B) and inserting in lieu thereof "; and"; and

(3) by inserting after subparagraph (B) the following:

"(C) a projection for the five fiscal years beginning with such fiscal year of the impact of such tax expenditures on the Federal revenue and outlay limit for each fiscal year in such period.".

(c) Section 308 (b) (2) of such Act is amended by inserting after "both Houses" the following: ", and the impact of all such bills and resolutions on total revenues and total budget authority with respect to the Federal revenue and budget outlay limit".

(d) Section 308(c) of such Act is amended—

(1) by striking out "and" at the end of paragraph (2);

(2) by redesignating paragraph (3) as paragraph (4); and

(3) by inserting the following immediately after paragraph (2):

"(3) the concomitant predicted Federal revenue and budget outlay limits for each fiscal year in such period; and".

SEC. 108. Section 310(a) of the Congressional Budget Act is amended by striking out the period at the end of such subsection and inserting in lieu thereof the following: ", but no such concurrent resolution may be reported at any time which increases total revenues or budget outlay above the Federal revenue and budget outlay limit unless such limit has been suspended pursuant to section 403(b).".

SEC. 109. Title IV of the Congressional Budget Act is amended—

(1) by redesignating sections 403 and 404 as 404 and 406, respectively; and

(2) by inserting immediately after section 402 the following:

"FEDERAL REVENUE AND BUDGET OUTLAY LIMIT

"SEC. 403. (a) Except as provided in subsection (b) of this section, Congress shall make no appropriation for any fiscal year in excess of the Federal revenue and budget outlay limit for such fiscal year. If during any fiscal year the revenue of the Government exceeds that limit, and is not offset by emergency appropriations approved pursuant to subsection (b), such excess revenue shall be used for the payment of the public debt of the Government.

"(b) In the event of a substantial emergency requiring the immediate acquisition or appropriation of funds in excess of the Federal revenue and budget outlay limit for that fiscal year, the Congress may, by concurrent resolution approved by vote of two-thirds of the Members present in each House, declare a fiscal emergency and suspend the provisions of subsection (a), but such emergency and suspension shall apply only during the fiscal year in which such concurrent resolution was passed."; and

(3) by inserting after the section redesignated as 404 (by paragraph (1) of this section) the following:

"FISCAL DISCLOSURE

"SEC. 405. (a) A bill or joint resolution of a public or private character which has been introduced in either House

of Congress or received by it from the other House shall be printed only when there appears at the bottom of the first page thereof a fiscal note. Such fiscal note shall state the amounts estimated to be the direct and indirect costs likely to be incurred or the direct and indirect savings likely to be achieved in carrying out the provisions of such bill or joint resolution in the fiscal year in which it is introduced or received and in each of the five fiscal years following such fiscal year, or for the authorized duration of any program authorized by such bill or joint resolution if less than five years, except that in the case of measures affecting revenue, the fiscal note shall state only the estimate of the change in revenues for a one-year period.

"(b) A copy of each bill or joint resolution required by subsection (a) to have printed on its first page a fiscal note shall, upon introduction or receipt, be transmitted immediately to the instrumentality of Government which will carry out the provisions of such bill or joint resolution.

"(c) Not later than seventy-two hours following the receipt of any bill or joint resolution transmitted under subsection (b) of this subsection, such instrumentality shall transmit the text of the fiscal note for that bill or joint resolution to the Public Printer for printing by him.

"(d) If a Member of Congress notifies the instrumentality of government which will carry out the provisions

of the bill or joint resolution required under subsection (a) to be printed with a fiscal note, and submits a copy of the bill or joint resolution to such instrumentality, such instrumentality shall provide such Member with the text of the fiscal note for that bill or joint resolution. Such fiscal note shall be placed at the bottom of the first page at the time of introduction. A copy of any bill or joint resolution introduced with a fiscal note in accordance with this subsection shall be transmitted to the Public Printer for printing, and the provisions of subsections (a) and (b) of this section shall not apply to any bill or joint resolution so introduced.

"(e) A bill or joint resolution ordered reported by a committee of either House which authorizes a budget outlay shall be printed only when there appears at the bottom of the first page thereof a fiscal note consistent with the requirements of, and prepared in a manner consistent with, subsections (a) through (d) of this subsection.".

SEC. 109. The amendments made by this title shall apply with respect to the first fiscal year beginning more than one hundred and eighty days after the date of enactment of this Act.

Senator SCOTT. Thank you, Mr. Bonner.

Now, is there someone else in the audience that is scheduled to testify today?

I understand that my colleague from Virginia, Senator Byrd, is on his way. So, we will just temporarily stand in recess to await the arrival of Senator Byrd.

[A brief recess was taken.]

Senator SCOTT. The committee will resume its session.

Senator Nunn, it is good to have you here with us.

What we are trying to do is to have the various witnesses submit their statements for the record because the full committee has just gone into session and I have got to be at the full committee session.

It is good to have you, and I assume you are supporting your colleague's bill, from Georgia.

STATEMENT OF HON. SAM NUNN, A U.S. SENATOR FROM THE STATE OF GEORGIA

Senator NUNN. I support it 1,000 percent. I am a cosponsor of it and I have been for the last 2 years. I know Senator Curtis is very interested in the subject and I believe Senator Curtis has a similar bill.

Senator CURTIS. They are very similar. Both would provide in the Constitution a mandate for a balanced budget. The Senate Joint Resolution 55, as revised, goes one step further, and has a self-enforcing surtax to be applied if they do not balance. But our objectives are the same.

Senator NUNN. I agree with it 1,000 percent.

Mr. Chairman, I will be glad to submit my statement for the record. I do not think there is any single thing any committee of Congress could do that would equal the importance of this particular matter. So, I would hope very much that we get to vote on a measure of this nature on the floor.

I believe the American people have been well ahead of Congress for some time in asking for this kind of approach. My own State of Georgia has this approach. When forced to reduce revenue estimates, as was the case this year, the general assembly held an emergency session and they cut programs. That is exactly what I think we ought to be compelled to do. Look at history. Unless we are compelled to come to grips with this issue by the Constitution, it is not likely to be done.

[The prepared statement of Senator Sam Nunn follows:]

TESTIMONY BY U.S. SENATOR SAM NUNN BEFORE THE JUDICIARY COMMITTEE SUBCOMMITTEE ON CONSTITUTIONAL AMENDMENTS, OCTOBER 7, 1975

I am pleased to testify today in support of S.J. Res. 93, a proposal to amend the Constitution to require a balanced federal budget.

In my opinion, the impetus for this legislation is growing as the public becomes more aware of what federal spending has been doing to the nation's economy. Most people do not know many details about how Congress spends money, but they do understand huge numbers in red ink.

The sorry tale of federal budgeting over the post-World War II period has been told and retold. Incredible as it may seem, the federal budget has been balanced only once in the last 16 years. The U.S. Government had a record high deficit of over $40 billion in fiscal year 1975. During the six year period of fiscal

year 1970–75, the accumulated deficits were about $110 billion. But the largest peacetime deficit in the nation's history is the fiscal year 1976 deficit of about $70 billion.

In the face of this President Ford is projecting a combined deficit of between $80 billion and $100 billion over the next two years. Federal spending now rises more in one year than total spending in 1941, the last pre-World War II year. Increased deficits mean the federal government must borrow even more funds from the private capital market to support its activities. In 1975 the federal government is estimated to borrow almost 60 percent available capital, thus driving up interest rates and drying up needed investment capital for American agriculture and business.

When Congress passed the Congressional Budget and Impoundment Act of 1974, we took the first step in restoring a sense of fiscal responsibility to the Congress. We now have for the first time the machinery to formulate and implement a rational and economically sound federal budget. The passage of this Constitutional Amendment is the next essential step if we are to demonstrate to the American people that we are serious about exercising fiscal restraint in federal budgeting. The American people are aware that federal spending is one of the major causes of inflation and they're beginning to ask their Representatives in Congress to do something about it.

S.J. Res. 93 seeks to remove the trauma of runaway inflation from our economy by mandating a balanced budget. It is a very simple amendment. It requires the same common sense approach to federal budgeting as Americans practice at home: simply stated, income must equal expenses.

I would like to see the federal government follow the examples of our states, many of whom operate under state constitutions which require a balanced budget. My own state of Georgia is one example. Recently, when it became clear that anticipated tax revenues would not be sufficient to meet the state's fiscal year 1976 budget, the Governor called a special session of the legislature to determine what steps could be taken. The state elected to exercise strict budget controls and maintain fiscal responsibility. Certain programs were cut and many pay raises were postponed. I would like to see the federal government also follow this principle of fiscal responsibility. Attempts to balance the budget in recent years have been miserable failures.

In bad times the deficit and inflation are both high, but in good times they never come down far enough to offset the economic policy of the bad times. It has been all too easy for the federal government to go to the printing presses to generate the money to finance someone's latest "something for nothing" scheme. The something is usually another bureaucratic and administrative nightmare, giving money and benefits to many whose need is questionable. The nothing is the revenue we use to pay for these programs. In our financially sophisticated economy, the government has learned that it can do more than just print money, it can print notes and bonds as well.

The willingness to accept deficits has been the single most important factor in the ever-increasing spending by the federal government, where it is politically expedient to increase spending without paying for the programs.

What the Congress needs is a rule, a very simple, clear and binding rule that puts a stop to that. As a member of the Budget Committee, I have participated in the difficult sessions where we attempt to determine the appropriate levels of spending and revenue. What is needed is a firm standard and guide.

It is important to point out that this amendment will take some time to become the law of the land. As it moves toward ratification, I hope that the Congress will gradually move towards the type of fiscal responsibility it requires. As the proposed amendment states, in those extremely rare cases of military or economic emergency, an explicit statement by the Congress is required before any deficit can be allowed.

S.J. Res. 93 gives the American people a clear opportunity to express through both their national and state leaders their support for fiscal responsibility at the federal level. It enables the people to express themselves in the strongest terms possible, as an amendment to the Constitution, that they want to bar further federal budget deficits.

Senator CURTIS. We certainly appreciate your support.

Thank you very much for coming.

Senator SCOTT. Thank you very much.

We will hear from our colleague from Virginia, Senator Byrd.

I might say that since the full committee is in full session, what we have asked the witnesses to do is to submit their statements for the record, but perhaps make a brief summary.

[The prepared statement of Senator Byrd follows:]

STATEMENT BY SENATOR BYRD BEFORE THE SUBCOMMITTEE ON CONSTITUTIONAL AMENDMENTS OF THE SENATE COMMITTEE ON THE JUDICIARY, OCTOBER 7, 1975

Mr. Chairman, it is a privilege to be accorded this opportunity to discuss the issues involved in Senate Joint Resolution 55, which would require a balanced federal budget.

I am in strong agreement with the objectives of this proposal.

No need is more urgent in government today than a restoration of fiscal responsibility. In no small measure, the economic problems which today plague our nation can be traced to the consequences of many years of the ascendancy of the deficit financing philosophy.

The federal government has not had a blanced budget since Dwight D. Eisenhower was president, 15 years ago. And certainly there is nothing on the horizon to indicate a change in the trend which has provided for so many years—even-larger deficits, mounting debt, heavy government borrowing, accelerated inflation and all the evils that are associated with these problems.

As I see it, what is needed more than anything else in the field of government finance is discipline.

More than anything else, it is a lack of discipline—a tendency always to take the easy course, to vote more money for more programs and never mind the cost—which has undermined the soundness of the government's finances, and indeed threatens disastrous results for the economy itself.

Senate Joint Resolution 55, and similar proposals to establish the mechanics for balancing the federal budget, have the great merit of providing the discipline needed to achieve fiscal responsibility.

With an iron requirement for fiscal sanity—subject only to a suspension for national emergency—the President and the Congress would be forced to work together to straighten out the fiscal mess generated by years of recklessness.

Instead of trying to outspend one another, members of the Congress and officials of the Administration would be forced to make hard choices on priorities within a framework of responsible fiscal policy.

This is the kind of debate which we should have; and it will not take place unless and until we instill discipline.

I recognize that discipline was one of the objectives of the Congressional Budget Act of 1974. I supported that legislation, because I think that it represents an improvement in the way in which Congress handles budgetary requests; it provides a degree of coordination not present before.

But the Congressional Budget Act does not really require fiscal discipline. On the contrary, it provides that the Congress shall by resolution establish an "appropriate" deficit. All of us know that what Congress may regard as an "appropriate" deficit can be a real blockbuster; for the currrent year, the proposal at present is $70 billion, and I believe that figure will rise before we are through.

Yes, the Congress has set the deficit—at a figure which is the highest in history. So fiscal discipline there is not.

When the Congressional Budget Act was being debated in the Senate, I proposed an amendment to require a balanced budget, but it was not approved. In the absence of such a provision, I think the Budget Act is merely a coordinating tool, and in no sense an instrument of discipline.

To demonstrate the need for discipline, I think we only need consider what has happened in its absence.

At the end of the current year, it is estimated that the national debt will exceed $600 billion.

Startling as that is, I think it is even more important to note that of that total of $600 billion, more than one-third of it will have been accumulated during the short span of six years—from 1971 through 1976.

Obviously, the trend has been toward bigger and bigger deficits. We have now surpassed the deficits incurred during the peak years of World War II—and we are at peace.

At the present rate of increase in the debt, it will reach one trillion dollars in less than six years.

The interest on the debt—just the interest—consumes 23 cents of every individual and corporate income tax dollar paid into the United States Treasury.

One adverse effect of our enormous deficit is that it puts the government into the money market so massively as to reduce seriously the funds available to help business and utilities with job-creating expansions, and to finance new housing.

The Secretary of the Treasury has stated that during the current fiscal year, the federal government will consume two-thirds of all lendable funds. In fact, the federal government will borrow more than the federal government, state, and local governments and corporate entities combined have ever borrowed in any previous year.

Obviously this makes capital scarce for the private sector. It will drive interest rates upward; indeed, the process already has started.

An so, ironically, the recovery which the deficit-spending policy is supposed to promote is bound to be impeded, to a significant degree, by the massive government borrowing made necessary by the deficit itself.

Over the long haul, a policy of deficits in good times and bad sustains and accelerates inflation. Inflation is like the tide; it ebbs and it flows. But on each cycle, it rises above the previous high-water mark. So I think we can expect a new round of inflation surpassing even the high level of the last round.

And irresponsible fiscal policy on the part of the government encourages inflation in a more subtle way: it sets an example which tends to be followed by business in setting prices and by labor in seeking wage increases. Continual deficit spending, in other words, creates an inflationary climate.

Until the government sets an example of responsibility—an example of discipline—I do not believe that we are going to conquer the long-term inflationary trend in the United States.

To put it another way: we will not get the cost of living under control until we get the cost of government under control.

Many political leaders in Washington have been critical of the New York City officials whose policies have been responsible for that city's financial plight.

I strongly agree that New York's politicians are responsible for the financial mess in that city, and I firmly oppose any federal bailout program for New York.

But I wonder if many federal office holders have stopped to consider the parallels between New York's reckless policies and those being pursued in Washington.

Mayor Beame can come hat in hand to Washington, but when it comes time to pay the piper, to whom will the President of the United States turn?

Federal officials recognize that New York must get on the path to fiscal responsibility. But they do not appear to think that the same rule applies in Washington.

This year, New York City will have a deficit equal to 5 percent of its budget. The federal government will have a deficit equal to 22 percent of its budget.

Of course, the federal government has access to the printing press. It can finance almost any conceivable deficit temporarily—and I emphasize temporarily.

And the future cost is staggering. Today New York politicians are learning that sooner or later, someone has to say, "No." When will that lesson be learned in Washington?

If the federal government is to learn its lesson before bankruptcy becomes apparent, it will be because the people themselves will demand that their leaders adopt a course of fiscal responsibility.

And that in turn will happen only if the people focus their attention on these critical financial problems—if they become aroused about the squandering of their tax dollars and the failure of politicians to exercise restraint and good judgment.

What is needed is a national debate on this vital subject.

That is why I particularly welcome this hearing. This kind of session can do much to draw attention to our problems in the area of government finance.

The debate will broaden if proposals are reported to the floor of the Senate and the House, and critical votes are taken.

And should the issue then be submitted to the states for ratification, I believe we can anticipate a vigorous debate all across the nation as state legislatures and the people as a whole come to grips with this tremendously important question.

I have great faith in the good judgment of the people in this country. Given the facts, I feel they will choose wisely.

Therefore I hope that this hearing will mark the beginning of an awakening of interest in the vital issues of fiscal policy.

Mr. Chairman, I ask that in the hearing record, a table showing federal funds receipts and outlays, surpluses and deficits, and the interest on the public debt for the years 1957–1976 be printed at the conclusion of my remarks.

DEFICITS IN FEDERAL FUNDS AND INTEREST ON THE NATIONAL DEBT 1957-76 INCLUSIVE[1]

[In billions of dollars]

Year	Receipts	Outlays	Surplus (+) or deficit (−)	Debt interest
1957	68.8	67.1	+1.7	7.3
1958	66.6	69.7	−3.1	7.8
1959	65.8	77.0	−11.2	7.8
1960	75.7	74.9	+.8	9.5
1961	75.2	79.3	−4.1	9.3
1962	79.7	86.6	−6.9	9.5
1963	83.6	90.1	−6.5	10.3
1964	87.2	95.8	−8.6	11.0
1965	90.9	94.8	−3.9	11.8
1966	101.4	106.5	−5.1	12.6
1967	111.8	126.8	−15.0	14.2
1968	114.7	143.1	−28.4	15.6
1969	143.3	148.8	−5.5	17.7
1970	143.2	156.3	−13.1	20.0
1971	133.7	163.7	−30.0	21.6
1972	148.8	178.0	−29.2	22.5
1973	161.4	186.4	−25.0	24.2
1974	181.2	198.7	−17.5	29.3
1975	187.5	238.5	−51.0	32.7
1976[2]	205.3	263.5	[3] −58.2	36.0
20-yr total	2,325.8	2,645.6	−319.8	330.7

[1] Prepared by Senator Harry F. Byrd, Jr., of Virginia.
[2] U.S. Treasury Department estimates.
[3] In my judgment, this deficit estimate is unrealistically low.

Source: Office of Management and Budget, and Department of the Treasury.

STATEMENT OF HON. HARRY F. BYRD, JR., A U.S. SENATOR FROM THE STATE OF VIRGINIA

Senator BYRD. Thank you, Mr. Chairman, Senator Curtis, Senator Scott, Senator Nunn.

I am pleased to support the proposal offered by the distinguished Senator from Nebraska. I think it is vitally important that this Government get back to a balanced budget. I realize that philosophy today is considered a bit out of date; but I still think it is sound. I am one who believes that times and conditions and opportunities change, and that we, as individual citizens, must change with the times. But there are certain things that do not change and the arithmetic table is one. The problem facing our Nation now is the continued disregard of the arithmetic table, the continued determination of the Congress and, I might say, the administration, too, to refuse to go to a balanced budget. There is no discipline in the Congress, and the only way we can get discipline, as I see it, is for a proposal, such as the one which is being considered by this committee today, namely a constitutional requirement that there be a balanced budget with certain provisions for emergencies. Every State in the Union requires a balanced budget.

I admit that the Federal Government is in a somewhat different situation, but not entirely. Unless we can bring some sense of discipline

to the Congress, and apparently there is no way of doing it other than to have a constitutional requirement, I think that we will go from bad to worse in a financial way.

Senator SCOTT. Senator, a few minutes ago we had Senator Bumpers with us, and he spoke of while he was Governor of his State, and I referred to the fact that the Governor of our State was attempting to have a balanced State budget in Virginia, and that he was taking a little bit of flack for reducing the State contribution to the schools by 5 percent and some other economy measures, but commended him for this. I would assume that you would join in any such statement as that.

Senator BYRD. I certainly would. I think Governor Godwin is showing political courage and economic good sense in what he is doing.

Incidentally, I was at a dinner Saturday night at which Governor Godwin spoke. I suppose there were 700 or 800 people there. During the course of his remarks he said that he was fulfilling his constitutional duties by mandating a reduction of 5 percent in certain State expenditures, and he got the biggest hand that he got throughout the very fine speech which he made.

Senator CURTIS. Senator Byrd, you will be happy to know that just a few minutes ago I placed in this record a telegram from Gov. Mills Godwin, Jr., endorsing the proposal for a constitutional requirement of a balanced budget.

Senator NUNN. Mr. Chairman, I might add, in the State of Georgia, Governor Busbee is taking a similar leadership position, and that State legislature has gone along with him. They had an emergency session and they cut back on the budget because the revenue estimates went down.

I might also add that there are certain State legislators in Georgia who have almost given up on any move like this, that we are talking about today being made in Washington, and who are trying to stimulate interest in the Constitutional Convention for the purpose of requiring that there be a constitutional amendment to balance the budget.

That is a very difficult route, and I would hope that we could achieve it by passing it here in Congress and allowing the normal amendment process to work.

Senator Scott. Thank you, gentlemen, both of you, for being here.

Senator Curtis, the committee is adjourned.

Thank you.

[Whereupon, at 2:12 p.m., the subcommittee recessed, to reconvene upon the call of the Chair.]

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